YUGANG

YUGANG INTERNATIONAL LIMITED

Stock Code: 00613

2018

Aunnal Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Cheung Chung Kiu *(Chairman)*
Mr. Yuen Wing Shing *(Managing Director)*
Mr. Zhang Qing Xin
Mr. Lam Hiu Lo
Mr. Liang Kang

Non-Executive Director
Mr. Lee Ka Sze, Carmelo

Independent Non-Executive Directors
Mr. Luk Yu King, James
Mr. Leung Yu Ming, Steven
Mr. Ng Kwok Fu

COMMITTEES

Executive Committee
Mr. Cheung Chung Kiu *(Chairman)*
Mr. Yuen Wing Shing
Mr. Zhang Qing Xin
Mr. Lam Hiu Lo
Mr. Liang Kang

Audit Committee
Mr. Luk Yu King, James *(Chairman)*
Mr. Lee Ka Sze, Carmelo
Mr. Leung Yu Ming, Steven
Mr. Ng Kwok Fu

Nomination Committee
Mr. Cheung Chung Kiu *(Chairman)*
Mr. Leung Yu Ming, Steven
Mr. Ng Kwok Fu

Remuneration Committee
Mr. Leung Yu Ming, Steven *(Chairman)*
Mr. Cheung Chung Kiu
Mr. Ng Kwok Fu

AUTHORISED REPRESENTATIVES

Mr. Cheung Chung Kiu
Mr. Yuen Wing Shing

COMPANY SECRETARY

Mr. Albert T.da Rosa, Jr.

EXTERNAL AUDITORS

Ernst & Young

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

LEGAL ADVISERS

Bermuda:
Conyers Dill & Pearman

Hong Kong:
Woo Kwan Lee & Lo
Cheung Tong & Rosa Solicitors

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Bermuda

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STOCK CODE

00613

Chairman's Statement and Management Discussion and Analysis

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Yugang International Limited (the "**Company**"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018.

REVIEW OF RESULTS

The Group recorded a consolidated profit of HK$109.2 million attributable to shareholders for the year ended 31 December 2018, representing a decrease of HK$18.3 million or 14.4% from the last corresponding year. It was mainly attributable to a moderate amount of fair value loss of HK$2.1 million on listed equity investments at fair value through profit or loss as a result of a bearish market sentiment for the year as compared to a fair value gain of HK$103.9 million recorded under a bullish market sentiment in the last corresponding year. Following the strengthening of all other business segments, the Group however could record an improvement in almost all other key performance indicators for the year including an increase in all revenue items with an aggregate amount of HK$31.7 million, a cost reduction by a further decrease in administrative expenses of HK$19.9 million, an increase in share of profit of an associate of HK$9.3 million and an income tax provision difference of HK$34.1 million for the year. In addition, with an effort to promote a stable stream of income, the operating results of the Group are gradually becoming less affected by the fair value change of listed equity investments.

The basic earnings per share for the year was HK1.17 cents, whereas the basic earnings per share of HK1.37 cents was recorded for the last corresponding year.

FINAL DIVIDEND

The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2018 (2017: HK$0.002 per share). No interim dividend in the form of cash was declared for the financial year of 2018 and 2017. An interim dividend by way of Distribution in Specie of CHH and Distribution in Specie of Y. T. Realty in an aggregate fair value of HK$1,460.1 million were declared for the financial year of 2018 (2017: Nil).

BUSINESS REVIEW

2018 was a challenging year as the global economy had been impacted by the intensified trade disputes between the U.S. and China. The economy of Mainland China was particularly affected with a deteriorating Purchasing Manager Index (PMI) of Manufacturing, weakening business and consumer confidence and slowing down of GDP during the year. In contrast, the economy of U.S. appeared strong for the year with good economic indicators such as unemployment rate, non-farm payrolls, purchasing manager indices and consumer confidence, etc. without any notable impact by the rising trade protectionism which enabled the U.S. Federal Reserve to raise interest rate continuously throughout the year.

Hong Kong economy however maintained a solid growth trend even under the influence of trade disputes between U.S. and China during the year. It was mainly attributable to strong performance across some key economic sectors including tourism and retail sales which were particularly stimulated after the launch of Hong Kong-Zhuhai-Macau Bridge and Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link bringing PRC visitors to record high. In addition, as the central government of the PRC announced the development plan of the Guangdong-Hong Kong-Macao Greater Bay Area, local consumer confidence and consumer spending remained strong notwithstanding the property market entered into the correction phase with a decline by 7.4% from its peak according to the statistics from real estate agency.

Nevertheless, due to the geopolitical uncertainties such as Brexit or trade protectionism, the global financial markets became much volatile during the year under review. The investor confidence was inevitably dampened with a bearish market outlook which would therefore increase the volatility of financial markets in both Hong Kong and China for the year.

Given a negative impact on the treasury investments of the Group due to the volatility of the financial market, the overall financial performance of the Group fell back moderately for the year due to an improvement in the performance of all other segments.

Property Investment Business

The Group carried on its Property Investment Business through Y. T. Realty Group Limited ("**Y. T. Realty**"), an associate of the Group, the shares of which are traded on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Y. T. Realty mainly focuses on prime properties in established overseas markets and principally indirectly hold 100% interest in a prime commercial property, 1 Chapel Place in London, United Kingdom ("**London Property**") and all the issued units in a property unit trust, Grove Property Unit Trust 4, which owns a prime hotel property located at 1 Harrow Place and 11 White Kennett Street, London, United Kingdom ("**London Hotel**").

Both of London Property and London Hotel are located in the prime central London business district and the leasing demands for office and retail were stable and strong. The London Hotel, trading as Travelodge London Liverpool Street, has been leased to Travelodge Hotels for a term of 35 years as from 26 April 2007 under an investment lease.

The performance of Property Investment Business was satisfactory for the year. The gross rental income of Y. T. Realty was HK$47.5 million for the year, a 5.0% increase from the last corresponding year. The occupancy rate of the London Property and London Hotel maintained at 100% as at the end of 2018. The revaluation of the investment properties of Y. T. Realty generated a surplus of HK$51.4 million as at the end of 2018 (2017: HK$15.9 million).

On 30 October 2018, the Group declared an interim dividend by way of distribution in specie of all its entire interests in Y. T. Realty ("**Distribution in Specie of Y. T. Realty**"). Upon completion of Distribution in Specie of Y. T. Realty on 23 November 2018, Y. T. Realty ceased to be an associate of the Group and would no longer contribute to the Group through share of profit of an associate. In this respect, the Group could still record a share of profit of an associate of HK$28.0 million for the year ended 31 December 2018, representing an increase of HK$9.3 million or 50.0% from the last corresponding year. Meanwhile, the Group recorded a net gain of approximately HK$0.14 million on deemed disposal of an associate by way of distribution in specie after deducting the relevant cost and expenses and netting off a release of other reserves related to Y. T. Realty upon deemed disposal.

Property Leasing Business

In addition to the Property Investment Business, the Group held various classes of properties in Hong Kong comprising industrial, residential and commercial for rental income under Property Leasing Business segment. The aggregate rental income from Property Leasing Business was HK$11.3 million for the year (2017: HK$8.1 million). The increase in rental income was mainly attributable to the acquisition of two commercial properties in May 2017 which generated a monthly rental income of HK$660,000, exclusive of government rent, rates, management fees and other charges. As the property market entered into a correction phase in the last quarter of 2018, the investment properties under Property Leasing Business segment were revalued to HK$464.0 million as at 31 December 2018 with a fair value gain of HK$24.9 million for the year, representing a decrease of HK$5.1 million from the last corresponding year.

Treasury Management Business

During the year under review, the stock market of Hong Kong was extremely volatile with a substantial drop of Hang Seng Index by almost 9,000 points under the negative effect of an intensified trade disputes between U.S.A and China and a continuing of an U.S. interest rate hike together with an orderly shrink of the balance sheet by U.S. Federal Reserve. The market therefore expected a downward pressure on the overall corporate earnings as well as dividend payout of listed companies in Hong Kong for the year. The treasury investments of the Group were inevitably affected even the Group has persistently maintained a well-diversified portfolio of listed equity investments with various industries and sectors. However, the Group recorded a dividend income of HK$28.3 million from the listed equity investments at fair value through profit or loss for the year, representing an increase of HK$4.5 million or 19.0% from the last corresponding year. Given a volatile financial market particularly appearing in the second half of the year, the Group subsequently recorded a net amount of unrealized fair value loss of HK$2.1 million on the listed equity investments at fair value through profit or loss for the year, comparing to a fair value gain of HK$8.6 million in the 2018 interim results and a fair value gain of HK$103.9 million in the last corresponding year. Nevertheless, the Group realized a gain of HK$10.6 million on disposal of a listed equity investment at fair value through profit or loss during the year as compared to a loss of HK$3.9 million recorded in the last corresponding year. In addition, the Group declared an interim dividend by way of distribution in specie of 51,179,018 shares in The Cross-Harbour (Holdings) Ltd ("**CHH**", stock code: 00032), which was classified as listed equity investment at fair value through profit or loss ("**Distribution in Specie of CHH**") on 24 August 2018. Upon completion of Distribution in Specie of CHH on 19 September 2018, the Group recorded a net gain of approximately HK$6.1 million after deducting the relevant costs and expenses.

In view of various economic and geopolitical uncertainties, the Group adopted a defensive strategy in Treasury Management Business segment by reducing its portfolios in listed equity investments and increasing the fixed income debt investments in order to secure a stable stream of interest income to the Group. In December 2018, the Group purchased two senior notes bearing an annual coupon interest rate ranging from 7.875% to 8.5% issued by two separate listed issuers with a total consideration of approximately HK$69.1 million. Detailed information of the two senior notes including the coupon interest rates, terms of maturity and descriptions of issuers etc. were separately contained in the announcements of the Company published on 13 and 14 December 2018. The Group recorded an interest income of HK$0.45 million from the senior notes for the year accordingly. In addition, the Group also actively expanded its money lending business in the second half of the year as mentioned in the Prospect section of Management Discussion and Analysis of 2018 Interim Report. In December 2018, the Group provided financial assistance to two new corporate customers in the amount of HK$50.0 million and HK$48.0 million for a term of two years and at an annual interest rate of 16% and 17% respectively. Detailed information of the provisions of financial assistance were separately contained in the announcements of the Company published on 19 and 27 December 2018. The Group recorded an interest income of HK$15.3 million from the Money Lending Business for the year which represented a significant increase of approximately HK$9.0 million or 142.5% from the last corresponding year. However, an impairment of HK$5.9 million was made on loan receivables for the year when applying the expected credit risk model upon the adoption of HKFRS 9 as at 1 January 2018.

OUTLOOK AND STRATEGY

Looking forward, the Group is cautious toward the global economy for 2019. The global economy is sluggish as reflected by a slowing down of purchasing manager indices in U.S., Europe, China and Japan etc. The pace of interest rate hike by U.S Federal Reserve may also slowdown in view of various uncertainties affecting U.S economic growth in the year of 2019. The trade disputes between U.S and China remains uncertain even the progress of negotiation appeared good. In addition, geopolitical uncertainties such as implementation of Brexit may also post a threat to global economic recovery and investor confidence.

The economy of Hong Kong is however expected to be stable with growth momentum being maintained for 2019. Even Hong Kong property market has entered into a correction and consolidation phase previously, the tourism and retail sales continue to perform well and private consumption remains robust as Hong Kong is expected to benefit from the implementation of Guangdong-Hong Kong-Macao Greater Bay Area plan and Hong Kong-Zhuhai-Macau Bridge.

In view of an economic slowdown of China, the central government of Mainland China has actively launched a number of fiscal and monetary policies to stimulate the economic growth, such as lowering down the deposit reserve ratio of commercial banks by 100 basis points, planning for a tax rate cut and implementing subsidy measures to stimulate the private consumption since January 2019. In addition, on 28 February 2019, MSCI declared the increase of weighting of China A shares in MSCI Emerging Market Index in 2019 which has fueled up an escalation of China A Shares as well as Hong Kong stock market. It is expected that the Group's Treasury Management Business will be positively benefited by the improved sentiment of financial markets during the first half of 2019.

The corporate strategy of the Group focuses on maintaining a stable business development principally by increasing its exposure in investment properties for recurring and stable rental income with reasonable return, fixed income debt investment for stable interest income with sustainable return and expanding its money lending business to earn interest income for future growth. The Group also aims to maintain its long-sustained strategy of focusing on strategic expansion and diversification of business for long-term growth. In addition, the Group aims to strike a balance between maintaining a sound financial and management capabilities and enhancing the Shareholder's return.

FINANCIAL REVIEW

Revenue

The revenue of the Group was approximately HK$66.0 million for the year, representing an increase of HK$31.7 million or 92.3% from the last corresponding year. There was an increase in all revenue items for the year including a gain of HK$10.6 million on disposal of listed equity investments at fair value through profit or loss (2017: loss of HK$3.9 million), an increase of both interest income on loan receivables for an amount of HK$9.0 million and rental income from investment properties for an amount of HK$3.2 million.

Other Comprehensive Income

The Group recorded other comprehensive income of HK$209.9 million for the year (2017: other comprehensive loss of HK$108.3 million) which arose from a release of other reserves related to Y. T. Realty upon deemed disposal of an associate.

Net Asset Value

As at 31 December 2018, the consolidated net asset value of the Group was HK$1,632.4 million (2017: HK$2,792.0 million). The consolidated net asset value per share of the Group was HK$0.175 (2017: HK$0.30). The Group's total assets and total liabilities were HK$1,646.8 million (2017: HK$2,831.2 million) and HK$14.5 million (2017: HK$39.2 million) respectively.

Capital Structure

The Group's capital expenditure and investments were mainly funded from cash on hand, internally-generated funds and bank borrowings.

The Group consistently adopts conservative treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in U.S. dollars and Hong Kong dollars. The Group does not use any financial instruments for hedging purpose.

Liquidity and Financial Resources

The Group's cash and cash equivalents, being mainly denominated in Hong Kong dollars, was HK$168.9 million as at 31 December 2018 (2017: HK$63.2 million). The cash and cash equivalents and the listed equity investments in aggregate were HK$987.4 million as at 31 December 2018 (2017: HK$1,143.4 million). The liquidity of the Group was very strong with a current ratio of 91.6 as at 31 December 2018 (2017: 76.7).

The Group did not have any bank borrowing as at 31 December 2018 (2017: HK$7.5 million). The Group had available short-term revolving banking facilities of approximately HK$150.0 million as at 31 December 2018 (2017: HK$150.0 million). None of them were utilized as at 31 December 2018 (2017: Nil).

Exposure to Fluctuation in Exchange Rates and Related Hedges

As the Group's major source of income, expenses, major assets and bank deposits were denominated in Hong Kong dollars and U.S. dollars, the Group's exposure to fluctuation in foreign exchange rates was minimal due to the pegged exchange rate. The Group did not have any related hedging instruments.

Gearing Ratio

As at 31 December 2018, the gearing ratio of the Group, as measured by dividing the net debt to Shareholders' equity, was inapplicable as it became negative when cash and cash equivalents could entirely cover the total debt (2017: N/A). Net debt was calculated as bank borrowings plus other payables and accruals, net of cash and cash equivalents.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2018 (2017: Nil).

Charges on Group Assets

As at 31 December 2018, the Group pledged its investment properties with an aggregate carrying value of approximately HK$130.3 million as securities for general banking facilities granted to the Group (2017: HK$121.2 million).

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group include the risks pertaining to the property investment and property leasing business, the equity price risk relating to the treasury management business and the credit risk relating to the money lending business and fixed income debt investments.

The property leasing business are affected by a number of factors, including the changes in economic environment and the implementation of economic, fiscal, monetary and housing policies in Hong Kong etc. It is also susceptible to changes in consumer confidence and consumption spending of consumers in Hong Kong and Mainland visitors.

The equity price risk facing the treasury management business is the price volatility of the listed equity investments at fair value through profit or loss. It can be affected by various macroeconomic factors such as interest rate and foreign exchange rate fluctuation, changes in commodity and crude oil prices, and other geopolitical factors.

The credit risk facing the money lending business and fixed income debt investments are the potential risks for credit loss arising from the granting of financial assistance to external independent customers and the default payment of the issuers of senior notes respectively. It can be affected by a number of factors, including the changes in economic and business environment, fluctuation of interest rate, changes of rating ranked by international credit agencies, deterioration of employment condition, volatility of financial markets of Hong Kong and change of PRC government policies.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

The Group maintained a diversified portfolio of listed equity investments at fair value through profit or loss with a carrying value of HK$818.5 million as at 31 December 2018 (2017: HK$1,080.2 million). The Group held a total of 21 listed companies in the portfolio of listed equity investments, all of which are listed in Hong Kong. The significant investments held by the portfolio included C C Land Holdings Limited ("**C C Land**", stock code: 01224) with a carrying value of approximately HK$552.2 million and China Resources Pharmaceutical Group Limited ("**China Resources Pharmaceutical**", stock code: 03320) with a carrying value of approximately HK$145.5 million respectively as at 31 December 2018, which accounted for approximately 67.5% and 17.8% of the aggregate carrying value of the portfolio respectively. The Group reclassified the investment in C C Land from available-for-sale investment to listed equity investments at fair value through profit or loss on 1 January 2018 upon the date of initial application of HKFRS 9. The Group's investment in C C Land and China Resources Pharmaceutical outperformed the Hang Seng Index to record a fair value gain of HK$46.8 million and HK$1.4 million (2017: HK$34.3 million) respectively for the year. The Group also received dividend income of HK$5.8 million and HK$2.8 million from C C Land and China Resources Pharmaceutical respectively. In addition, the Group partially disposed of certain shares in China Resources Pharmaceutical to realize a gain of HK$10.6 million during the year. The future prospect and performance of the Group's listed equity investments depend on, to a large extent, the corresponding performance of the relevant financial markets which is expected to be less volatile in the first half of 2019 as compared to the year of 2018.

Save as disclosed above and the deemed disposal of an associate by Distribution in Specie of Y. T. Realty, there was no other significant investment held, nor were there any material acquisitions or disposals of subsidiaries, associates or joint ventures during the year under review. There was no present plan authorized by the Board for material investments or acquisition of material capital assets as at the date of this annual report.

Significant Events since the End of the Reporting Period

On 16 January 2019, the Company was informed by Chongqing Industrial Limited, Timmex Investment Limited and Mr. Cheung Chung Kiu, the controlling Shareholders of the Company, collectively referred to as (the "**Vendors**") that they entered into the sale and purchase agreement with Future Capital Group Limited (the "**Offeror**"), pursuant to which the Vendors agreed to sell and the Offeror agreed to purchase in aggregate of 4,099,709,732 sale shares of the Company ("**Sale Shares**") which represented approximately 44.06% of the entire issued share capital of the Company as at 16 January 2019 for a cash consideration of HK$0.175 per Sale Share. The Offeror was required to make a conditional mandatory general offer under The Hong Kong Code on Takeovers and Mergers. Detailed information was contained in the announcements of the Company published on 23 January, 28 January, 13 February, 28 February and 28 March, 2019, and the circulars of the Company despatched on 28 March 2019 respectively.

Save as disclosed above, there were no other significant events affecting the Group since the end of the reporting period.

Comment on Segment Information

Discussion and comments on the Group's segments, including the changes and development, were covered in the Business Review, Outlook and Strategy section of the Management Discussion and Analysis. Detailed information on recent changes and development of treasury management, property leasing and money lending business segments, were contained in the Business Review, Outlook and Strategy section. The segment information and operating results are set out in note 4 of the Notes to Financial Statements in this annual report.

Save as disclosed herein, there were no other significant changes in the market conditions, new products and services introduced that had significantly affected the Group's performance.

OTHER INFORMATION

Human Resources Practices

The Group's Remuneration Policy is to ensure fair and competitive packages based on business needs and industry practice. The Company aims to provide incentives to Directors, senior management and employees to perform at their highest levels as well as to attract, retain and motivate the very best people. Remuneration will be determined by taking into consideration factors such as market and economic situation, inflation, employment conditions elsewhere in the Group and salaries paid by comparable companies. In addition, performance-based assessment such as individual's potential and contribution to the Group, time commitment and responsibilities undertaken will all be considered.

There are approximately 16 work forces effectively serving the Group as at 31 December 2018. The Group also provides other staff benefits including MPF, medical insurance and discretionary training subsidy. The Company also operates a discretionary share option scheme to motivate the performance of employees.

APPRECIATION

On behalf of the Board, I would like to extend our gratitude and sincere appreciation to management and all staff for their diligence and dedication to the Company throughout the year.

Cheung Chung Kiu
Chairman

Hong Kong, 22 March 2019

Corporate Governance Report

The board (the "**Board**") of directors (the "**Directors**") of Yugang International Limited (the "**Company**") is committed to an ongoing enhancement of effective and efficient corporate governance practices. The Board recognizes that good corporate governance practices are essential in bringing up the success of the Company, upholding accountability and transparency, and balancing the interests of shareholders, investors and employees of the Company as a whole.

CORPORATE GOVERNANCE PRACTICE

Throughout the year ended 31 December 2018, the Company complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), save and except for deviation of code provision D.1.4 that the Company does not have formal letters of appointment for Directors setting out key terms and conditions of their appointment. The Company is of the view that the current arrangement is more appropriate and flexible, particularly in light of the current business activities and operational structure of the Company. All Directors have been serving the Company for long period of time and a clear understanding of terms and conditions of their appointment already exists between the Company and Directors. Additionally, each Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years pursuant to bye-laws of the Company (the "**Bye-Laws**").

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 regarding securities transactions by Directors and relevant employees. Following specific enquiry by the Company, each Director confirmed that throughout the accounting period covered by the annual report, they have complied with the required standard set out in the Model Code.

DIRECTORS' AND CHIEF EXECUTIVE' S INTERESTS

The interests and short positions of Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as at 31 December 2018 and as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were contained in the section headed "Directors' and Chief Executive's Interests" of the annual report.

STRATEGIC PLANNING

The corporate strategy of the Group focuses on maintaining a stable business development principally by increasing its exposure in investment properties for recurring and stable rental income with reasonable return, fixed income debt investment for stable interest income with sustainable return and expanding its money lending business to earn interest income for future growth. The Group also aims to maintain its long-sustained strategy of focusing on strategic expansion and diversification of business for long-term growth. In addition, the Group aims to strike a balance between maintaining a sound financial and management capabilities and enhancing the shareholder's return.

THE BOARD

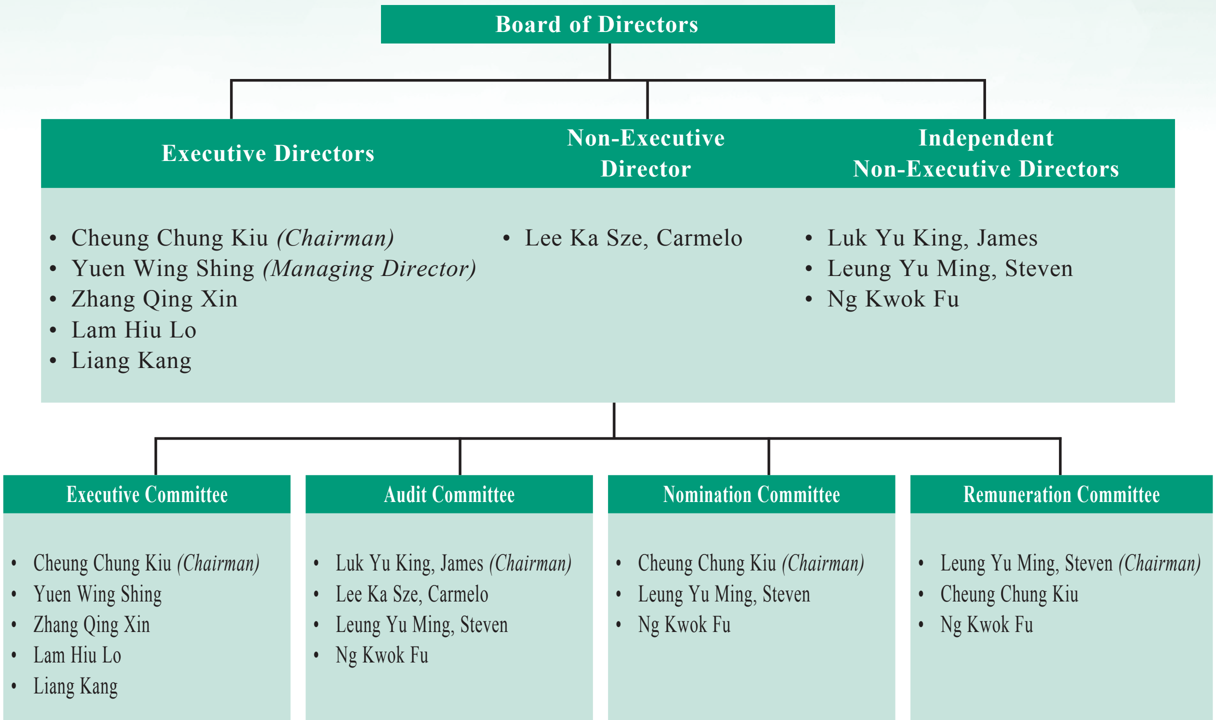
A. Board Composition

The Company is headed by an effective Board which is responsible for promoting the success of the Company, and balancing the long-term interest of shareholders and stakeholders. The Board currently comprises nine Directors and chaired by Mr. Cheung Chung Kiu, among whom five are executive Directors, one non-executive Director and three independent non-executive Directors ("**INEDs**"). That is, one-third of the Board is INEDs which complied with Rule 3.10 and 3.10A of the Listing Rules. Such balanced composition of executive and non-executive Directors ensures a strong independent element on the Board, and provides adequate check and balance to safeguarding the interest of shareholders and the Company as a whole. Members of the Board come from different backgrounds and possess diverse range of professional expertise and experience, collectively have balance of skill, competence and personal qualities relevant to the business of the Group and therefore discharge the responsibilities efficiently and effectively. They are experienced personnel with academic or professional qualifications either in accounting, legal or business management and at least one of whom has appropriate professional qualification of accounting or related financial management expertise.

At a meeting held on 23 January 2019, the Nomination Committee reviewed the Board composition and resolved that the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board was appropriate and thereby achieving the measurable objectives of the Board Diversity Policy and complied with the Listing Rules.

Mr. Zhang Qing Xin, an executive Director, is the father of Mr. Cheung Chung Kiu, the chairman of the Company. Save as disclosed herein, none of Directors have any relationship (including financial, business, family or other material/relevant relationship) between each other. The list of Directors and their biographical details are set out in the section headed “Profiles of Directors and Senior Management” of this annual report.

The following chart illustrates the current Board composition including Board Committees:



B. Chairman and Managing Director

The role of the Chairman and Managing Director are separately assumed and performed by Mr. Cheung Chung Kiu and Mr. Yuen Wing Shing respectively and their responsibilities are clearly identified in writing and segregated. There is a clear distinction between the Chairman’s responsibility for management of the Board and Managing Director’s responsibility for running the day-to-day business of the Company in order to ensure a balance of power and authority. The key responsibilities of the Chairman and Managing Director are set out hereunder:

Key Responsibilities of the Chairman

Mr. Cheung Chung Kiu was appointed the Chairman of the Board in 1993. The primary role and key responsibilities of the Chairman include the followings:

1. To provide leadership for and overseeing the functioning of the Board to ensure its effectiveness;

2. To sketch business development plans, formulate overall strategies, objectives and policies of the Company;

3. To draw up and approve agenda for each Board meeting, and ensure matters proposed by Directors will be included in the agenda;

4. To ensure each Director is given an opportunity to express his view at Board meetings, allow sufficient time for discussion and that each Director is properly briefed on issues arising at Board meetings;

5. To ensure all Directors will receive, in a timely manner, adequate information which are accurate, clear, complete and reliable;

6. To ensure good corporate governance practices and procedures are established; and

7. To ensure appropriate steps are taken to provide effective communication with shareholders of the Company (the "**Shareholders**") and that their views are communicated to the Board as a whole.

Key Responsibilities of Managing Director

Mr. Yuen Wing Shing was appointed Managing Director of the Company in 2005 who takes the role of CEO as described in Appendix 14 to the Listing Rules. The primary role and key responsibilities of the Managing Director are as follows:

1. To provide leadership for the implementation of the Company's objectives, policies and strategies;

2. To be responsible for the day-to-day management of the Company;

3. To be responsible for setting up budgets, monitoring performance of management and effectiveness of the Company;

4. To be responsible for establishing and maintaining proper risk management and internal control systems of the Group;

5. To ensure the timely and effective implementation of objectives, policies and strategies set by the Board and other decisions taken by or on behalf of the Board; and

6. To ensure the effective functioning of the Company's operational divisions and departments.

C. Non-executive Directors

Mr. Lee Ka Sze, Carmelo was appointed the non-executive Director whilst Mr. Luk Yu King, James, Mr. Leung Yu Ming, Steven and Mr. Ng Kwok Fu were appointed the INEDs. The INEDs and non-executive Director played an important role in the Board and have given the Board and Board Committees on which they served the benefit of their skills, expertise and varied backgrounds and qualification through regular attendance and active participation. They all attended the 2018 AGM to gain and develop a balanced understanding of the views of Shareholders. Moreover, they possess extensive academic, professional and industry expertise and management experience, in particular, Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven have appropriate professional qualification of accounting or related financial management expertise. During the year, the non-executive Directors (including the INEDs) met once with the Chairman without presence of the executive Directors. They have made a positive contribution to the development of the Company's strategy and policies by giving independent, constructive and informed comments for safeguarding the interest of the Shareholders and the Group as a whole.

The non-executive Directors are appointed for a term of three years and are subject to retirement by rotation at the Company's annual general meetings at least once every three years in accordance with the Bye-Laws.

On 23 January 2019, the Nomination Committee assessed and reviewed the individual INED's written confirmation of independence based on the independent criteria set out in Rule 3.13 of the Listing Rules, and affirmed that all INEDs remained independent. It was noted that each of INEDs had no interests or relationships that could materially interfere with their independent judgment.

D. Board Delegation

The Board steers the Company's business direction. The day-to-day management, administration and operation of the Company have been delegated to management. The Executive Committee, chaired by the Chairman of the Board and comprised all executive Directors, has an enhanced executive role of management and undertakes full accountability to the Board for day-to-day management and operation of the Group. Directions as to the powers delegated to management are clearly identified. The Board shall review the delegation arrangement periodically to ensure it remains appropriate to the Company's need.

The Board has reserved the following functions to the Board. Or, prior approval from the Board is required if the management is dealing with the following functions:

1. To formulate long-term corporate strategy and business development plans;

2. To declare an interim dividend, a final dividend or to declare or recommend other distribution;

3. To supervise and monitor performance of management;

4. To review the effectiveness of the risk management and internal control systems of the Group;

5. To be responsible for the appointment, removal or re-appointment of Directors, senior management and external auditors, and determine the remuneration of Directors and senior management based on the recommendations of the Remuneration Committee; and

6. To recommend members of the Company for winding up of the Company.

E. Board Committees

The Board delegated authorities to four Board committees to deal with matters, and specific written terms of reference were clearly set out to enable them to perform their functions properly. Board committees are required, unless restricted by laws and regulations, to report to the Board on their decisions or recommendations on a regular basis.

1. ***Executive Committee***

The Executive Committee, comprising all executive Directors and chaired by the Chairman of the Board, was established on 31 December 2004. It takes the executive role of management and is responsible for the day-to-day management, administration and operation of the Company.

2. ***Audit Committee***

Detailed information on the works and duties of the Audit Committee is contained in the Report of the Audit Committee in this annual report.

3. ***Nomination Committee***

The Nomination Committee, comprising a majority of INEDs and chaired by the Chairman of the Board, was established on 30 March 2012. Other members include Mr. Leung Yu Ming, Steven and Mr. Ng Kwok Fu. The Nomination Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice at the Company's expense if considered necessary. The major roles and functions of the Nomination Committee are set out in its terms of reference which are published on websites of the Company and the Stock Exchange.

On 26 August 2013, the Company adopted the Board Diversity Policy which was then amended by the resolutions of the Board on 30 November 2018 to take effect on 1 January, 2019, which aims to set out the approach to achieve diversity on the Board. The Nomination Committee is responsible for monitoring the implementation and recommending any revisions that may be required to ensure effectiveness of the Policy. In addition, the Nomination Committee will discuss, review and agree annually on measurable objectives for implementing diversity on the Board. Moreover, the Board has adopted the Director Nomination Policy on March 13, 2014 which was then amended by the resolutions of the Board on November 30, 2018 to take effect on January 1, 2019. The Board will review these policies periodically to keep it up to date and in compliance with the Listing Rules, all applicable laws and regulatory obligations and requirements.

At a meeting of the Nomination Committee held on 23 January 2019, the following matters were discussed, reviewed and approved:

3.1 the structure, size, composition and diversity of the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

3.2 to assess the independence of INEDs by reference to the independent criteria set out in Rule 3.13 of the Listing Rules; and

3.3 the Director Nomination Policy and the Board Diversity Policy and their implementation.

The Nomination Committee considers that the current composition of the Board is characterised by diversity after taking into account its own business model and specific needs, whether considered in terms of professional background or skills.

Attendance of individual Directors at the meeting of the Nomination Committee is set out in the section headed “Directors’ Attendance and Time Commitment”.

4. ***Remuneration Committee***

The Remuneration Committee, comprising a majority of INEDs and chaired by Mr. Leung Yu Ming, Steven, was established on 30 June 2005. Other members include Mr. Cheung Chung Kiu and Mr. Ng Kwok Fu. The head of Human Resources Department serves as the secretary of the Remuneration Committee and minutes of the meetings have been sent to members within a reasonable time after the meetings. The major role and functions of the Remuneration Committee are set out in its terms of reference which are published on the websites of the Company and the Stock Exchange.

In dealing with remuneration packages of Directors, no member of the Remuneration Committee was involved in deciding his own remuneration packages. The Board reviews the Remuneration Policy annually to ensure remuneration packages offered by the Company remains fair and competitive based on business needs and industry practice to attract and retain Directors to run the Company successfully without paying more than necessary. The Company aims to provide incentives to Directors, senior management and employees to perform at their highest level as well as to attract, retain and motivate the very best people. Remuneration will be determined by taking into consideration factors such as market and economic situation, inflation, employment conditions elsewhere in the Group and salaries paid by comparable companies. In addition, performance-based assessment such as individual’s potential and contribution to the Group, time commitment and responsibilities undertaken will all be considered. The Remuneration Committee consulted the chairman and Managing Director on the remuneration proposals of executive Directors, and taking into consideration other relevant factors including corporate goals and objectives of the Company in recommending remuneration of Directors. The Company has provided sufficient resources for them to perform duties and they may access to professional advice if considered necessary.

At a meeting of the Remuneration Committee held on 23 January 2019, the following matters were discussed, reviewed and approved:

4.1 2019 Remuneration Policy of the Group;

4.2 management’s remuneration proposal with reference to the Company’s corporate goals and objectives;

4.3 to make recommendation to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, and compensation payable for loss or termination of their office or appointment (if any); and

4.4 to make recommendation to the Board on the remuneration of non-executive Directors.

Attendance of individual Directors at the meeting of the Remuneration Committee is set out in the section headed “Directors’ Attendance and Time Commitment”. Information relating to the remuneration of each Director for 2018 is set out in note 9 of the Notes to Financial Statements.

5. ***Corporate Governance Functions***

The Board does not have a Corporate Governance Committee. However, the Corporate Governance functions as set out in Code Provision D.3.1 of the Corporate Governance Code are performed by the Board. On 22 March 2019, the Board has conducted a meeting to transact the following corporate governance matters:

5.1 to review the Company's policies and practices on corporate governance;

5.2 to review the training and continuous professional development of Directors and senior management;

5.3 to review the Company's policies and practices in compliance with legal and regulatory requirements;

5.4 to review the Code of Conduct; and

5.5 to review the Company's compliance with the Corporate Governance Code and applicable disclosure in the Corporate Governance Report.

F. Directors' Attendance and Time Commitment

The members of the Board meet regularly to review and discuss the overall strategy, operational and financial performance of the Company. Normally four regular meetings of the full Board will be held at quarterly intervals and special ad hoc Board meetings will be convened when necessary to deal with everyday matters which require the Board's prompt decision. In addition, the Company has established various Board committees under the Board and members of the committees have met at least annually to conduct business of the committees. All Directors are experienced personnel with academic or professional qualifications either in accounting, legal or business management, and who have given the Board and Board committees the benefits of their skills, expertise, backgrounds and qualifications through regular attendance and active participation. Except Mr. Zhang Qing Xin, Directors have attended the 2018 annual general meeting and have developed a balanced understanding of the views of Shareholders in general.

During the year of 2018, the attendance record of Directors at regular Board meetings, Board committee meetings and 2018 annual general meeting are set out hereunder:

	Number of meetings attended/held				
	Regular Board Meetings	**Audit Committee Meetings**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**2018 Annual General Meeting**
Number of meetings held	4	3	1	1	1
Executive Directors					
Cheung Chung Kiu *(Chairman)*	4/4	N/A	1/1	1/1	1/1
Yuen Wing Shing *(Managing Director)*	3/4	3/3	1/1	1/1	1/1
Zhang Qing Xin	3/4	N/A	N/A	N/A	0/1
Lam Hiu Lo	3/4	N/A	N/A	N/A	1/1
Liang Kang	4/4	N/A	N/A	N/A	1/1
Non-Executive Director					
Lee Ka Sze, Carmelo	4/4	2/3	N/A	N/A	1/1
Independent Non-Executive Directors					
Luk Yu King, James	4/4	3/3	N/A	N/A	1/1
Leung Yu Ming, Steven	4/4	3/3	1/1	1/1	1/1
Ng Kwok Fu	4/4	3/3	1/1	1/1	1/1

Each Director is aware of his obligation to give sufficient time and attention to the affairs of the Company and should not accept the appointment if he cannot do so. Upon reviewing (i) the attendance rates of each Director in 2018 annual general meeting, regular Board meetings and their respective board committee meetings; (ii) written confirmation of Directors regarding the number and nature of offices held in public companies or organisations and other significant commitments pursuant to code provision A.6.6; and (iii) written confirmation of Directors to give sufficient time and attention to the affairs of the Company throughout the terms of their appointments, the Board is of the view that all Directors have spent sufficient time in performing their responsibilities during the year under review.

G. Induction and Continuous Professional Development of Directors

Every Director is required to keep abreast of his responsibilities as a Director and of the conduct, business activities and development of the Company. In-house briefings on regulatory updates and relevant continuous professional development seminars have been provided at the Company's expenses. Every newly appointed Director had received a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently further briefings and continuous professional development will be arranged if necessary, to ensure each Director has a proper understanding of the Company's operation and business and that he is fully aware of his responsibilities under statute and common law, the Listing Rules and all other applicable regulations and governance.

The Company acknowledges that Directors' training is an ongoing process. During the year under review, all Directors have been updated on the latest developments of the Listing Rules, Companies Ordinance or other applicable laws and regulations related to Directors' duties and responsibilities. In addition, the Company Secretarial Department has arranged training courses and encouraged Directors to attend at the Company's expenses. Directors have provided records of training to the Company Secretarial Department. All Directors confirmed that they have complied with code provision A.6.5 to the Listing Rules by attending various continuous professional development seminars, in-house briefings or reading materials relevant to Directors' duties and responsibilities.

Directors' Participation in Continuous Professional Development Training

	Area of Training					
	Corporate Governance/ Regulatory Updates		Operation/Industry		Finance	
Name	Seminar/ Conference	E-learning/ Reading Materials	Seminar/ Conference	E-learning/ Reading Materials	Seminar/ Conference	E-learning/ Reading Materials
Cheung Chung Kiu	✓	✓		✓		
Yuen Wing Shing	✓	✓		✓	✓	
Zhang Qing Xin		✓		✓		
Lam Hiu Lo	✓	✓		✓		
Liang Kang	✓	✓		✓		
Lee Ka Sze, Carmelo	✓	✓	✓	✓	✓	
Luk Yu King, James	✓	✓	✓	✓	✓	
Leung Yu Ming, Steven	✓	✓	✓	✓	✓	
Ng Kwok Fu	✓	✓	✓	✓		

H. Supply of and Access to Information

The management has supplied the Board and Board Committees with adequate information in a timely manner to enable the Board to make informed decisions and to perform their duties and responsibilities as Director of the Company.

Generally, notice of Board meetings together with the proposed agenda are given to all Directors at least 14 days before each regular Board meeting and Directors are given an opportunity to include matters they wish to discuss in the agenda. Agendas and accompanying Board papers are provided to Directors at least 3 days before the intended date of a board or board committee meetings.

Minutes of the Board/Board Committee meetings with details of matters considered and decisions reached, including any concerns raised by Directors or dissenting views expressed, after circulation for comments by Directors, are kept by the company secretary or a duly appointed secretary of the relevant meeting and are open for inspection by Directors if necessary.

All Directors have access to the advices and services of the company secretary to ensure necessary Board procedures and all applicable rules and regulations are followed. All Directors are regularly updated on governance and regulatory matters. Directors, upon reasonable request, may have access to independent professional advice in appropriate circumstances at the Company's expenses.

The Company has arranged appropriate insurance cover in respect of legal action against Directors.

The Board is fully aware that, if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will not be dealt with by way of written resolution or by a committee (except for an appropriate Board committee set up for that purpose pursuant to a resolution passed in a Board meeting) but a Board meeting will be held. INEDs who, and whose associates, have no material interest in the transaction will be present at such Board meeting.

ACCOUNTABILITY AND AUDIT

A. Directors' Responsibility for Financial Reporting

The Directors acknowledge the responsibility for preparing the accounts of the Group and to present a balanced, clear and understandable assessment in the Company's annual and interim reports and other financial disclosures in accordance with the Listing Rules and other statutory requirements and applicable accounting standards, so as to give a true and fair view of the state of affairs of the Company. As at 31 December 2018, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. The Directors also ensure the timely publication of the financial statements of the Group. During the year, in strict compliance with relevant provisions, the Company published the 2018 interim report and the 2017 annual report.

Management undertakes to provide sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before the Board for approval. In addition, management provides all members of the Board with monthly financial updates which give a balanced and understandable assessment of the Group's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties under the relevant requirements of the Listing Rules.

In preparing the financial statements for the year ended 31 December 2018, the Board:

1. adopted Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;

2. selected suitable accounting policies and applied them consistently;

3. made prudent and reasonable judgments and estimates; and

4. prepared the accounts on a going concern basis.

B. External Auditors and their Remuneration

The Company's external auditors are Messrs. Ernst & Young. The auditors' acknowledgment of reporting responsibilities is set out in the Independent Auditor's Report of the annual report. The independence of auditors is monitored by the Audit Committee and disclosed in the Report of the Audit Committee. Apart from providing audit services to the Group on annual consolidated financial statements, the auditors also provided non-audit services such as performing agreed-upon procedures on the interim financial report and tax compliance services, all appointments are in line with the Company's Policy on Use of External Auditors for Non-audit Services.

During the year under review, the remuneration paid/payable for services to the external auditors is as follows:

Services rendered	**Fees paid/payable** *(HK$)*
Audit fee	1,648,000
Non-audit fees *(Note)*	463,700
Total	2,111,700

Note: Non-audit fees include fees of HK$265,000 and HK$198,700 for agreed-upon procedures on interim financial report and tax compliance services fee, respectively.

C. **Risk Management & Internal Control Systems**

The Board acknowledges the responsibility of establishing, maintaining and operating a sound and effective risk management and internal control systems, and reviews its effectiveness periodically. An annual review on the effectiveness of the Group's risk management and internal control systems has been conducted by the Board and reviewed by the Audit Committee. The Board is of the view that, the risk management and internal control systems of the Group for the year under review is sound and effective. Detailed information on the Group's risk management and internal control systems was contained in the Report of the Risk Management & Internal Control Systems of the annual report.

COMPANY SECRETARY

The Company engages an external service provider to provide secretarial services and has appointed Mr. Albert T. da Rosa, Jr. of Cheung Tong & Rosa Solicitors as its company secretary. Although Mr. da Rosa is not an employee of the Company, the Company has assigned Mr. Wong Ka Tai, senior finance and accounting manager as the contact person with Mr. da Rosa. Information in relation to the performance, financial position and other major developments of the Group are speedily delivered to Mr. da Rosa through the contact person assigned, to enable Mr. da Rosa to get hold of the Group's development promptly without material delay. Given the long-term relationship between Mr. da Rosa and the Group, Mr. da Rosa is very familiar with the operations of the Group and has an in-depth knowledge of the management of the Group. The Company is confident that having Mr. da Rosa as the company secretary is beneficial to the Group's compliance with the relevant Board procedures, applicable laws, rules and regulations.

During the year ended 31 December 2018, Mr. da Rosa has taken no less than 15 hours of relevant professional trainings.

SHAREHOLDERS' RIGHTS

Set out hereunder is a summary of Shareholders' rights as required to be disclosed pursuant to Code Provision O of the Corporate Governance Code, which are subject to the Bye-Laws, Companies Act 1981 of Bermuda and applicable legislation and regulation.

Every year, an annual general meeting will be held by the Company. Further, the Board may whenever it thinks fit call general meetings known as special general meetings.

Shareholders who wish to convene a special general meeting or put forward proposals at any general meeting, including the proposal to nominate a person for election as a Director, should follow the applicable procedures described below.

Procedures to Convene a Special General Meeting

1. Shareholders holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Company, to require a special general meeting to be called by the Board for transaction of any business specified in such requisition.

2. The requisition must state the purposes of such meeting, and must be signed by the requisitionists and deposited at the Company's registered office in Bermuda at Clarendon House, Church Street, Hamilton HM11, Bermuda (the "**Registered Office**"), and may consist of several documents in like form each signed by one or more requisitionists. To ensure that the requisition is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's principal place of business in Hong Kong at 25th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong (the "**Principal Place of Business**"), marked for the attention of the Board or the company secretary.

3. If Directors do not within twenty-one (21) days from the date of deposit of requisition proceed duly to convene a special general meeting to be held within two (2) months after the deposit of the requisition, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting and be repaid by the Company for any reasonable expenses incurred, provided that any meeting so convened by the requisitionists shall not be held after the expiration of three (3) months from the said date of deposit of the requisition.

4. Other than an adjourned meeting,

   4.1 a special general meeting at which the passing of a special resolution is to be considered shall be called by at least twenty-one (21) clear days and not less than ten (10) clear business days written notice. All other special general meetings may be called by at least fourteen (14) clear days and not less than ten (10) clear business days written notice.

   4.2 any special general meeting may be called by shorter notice than that specified in sub-paragraph 4.1 above if it is so agreed by a majority in number of the Shareholders having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the shares giving that right.

Procedures to Put Forward Proposals at General Meetings

1. Any number of Shareholders representing not less than one-twentieth (1/20) of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the general meetings of the Company; or not less than one hundred (100) Shareholders, shall (unless otherwise resolved by the Company) at their own expense have the right, by written requisition to the Company: (a) to require notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting to be given to Shareholders; and/or (b) to request for circulation to Shareholders any statement of not more than one thousand (1000) words with respect to the matter referred to in any proposed resolution or the business to be dealt with at any general meeting.

2. The requisition must be signed by the requisitionists in a single document or in separate copies prepared for the purpose. A copy of the signed requisition, accompanied by a sum reasonably sufficient to meet the Company's expenses, must be deposited at the Company's Registered Office: (a) in the case of a requisition requiring notice of a resolution, not less than six (6) weeks before the annual general meeting unless an annual general meeting is called for a date six (6) weeks or less after the copy has been deposited, in which case the copy shall be deemed to have been properly deposited though not deposited within the time required; and (b) in the case of any other requisition, not less than one (1) week before the general meeting. To ensure that the requisition is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's Principal Place of Business in Hong Kong, marked for the attention of the Board or the company secretary.

Procedures to Propose a Person for Election as a Director

Detailed information and procedures for Shareholders to propose a person for election as a Director are set out in the Company's website www.yugang.com.hk.

DIVIDEND POLICY

The Board adopted the Dividend Policy on 30 November 2018 to take effect as from 1 January 2019. The Dividend Policy aims to maximize interests of Shareholders and at the same time, maintains a strong balance sheet for investment opportunities and sustainable development of the Group in the future.

Pursuant to the Dividend Policy, dividends proposed or declared, recommended or not recommended, the form, frequency and dividend amount are to be determined by the Board by taking into account various factors including the followings:

1. Any restrictions or requirements under Companies Act 1981 of Bermuda, other applicable laws and regulations and the bye-laws of the Company;

2. The liquidity, cash flow and general financial position of the Group;

3. The current and future commitments, business strategy, capital needs forecast and capital structure target of the Group for the current and future development plans;

4. Any banking or other funding covenants by which the Group is bound from time to time; and

5. Any other factors the Board may deem appropriate and/or relevant.

The Dividend Policy will be reviewed periodically to keep it up to date and in compliance with applicable laws, rules and regulations.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communications with Shareholders and the investment community, and the value of providing current and relevant information in a timely and appropriate manner. The Board has formulated the Shareholder Communication Policy, aiming to ensure Shareholders and investment community are provided with ready, equal and timely access to current and relevant information of the Company, in order to enable the Shareholders to have a better understanding on the financial and business operation of the Company, as well as to exercise their rights in a timely and informed manner. In addition, the Board has adopted the Inside Information Policy which sets out a guideline for identifying, assessing and broadly disseminating inside information of the Group to the public in a timely and equal manner in accordance with the Listing Rules, laws and regulations applicable to the Company. In compliance with Code Provision E.1.5 of the Corporate Governance, the Board adopted the Dividend Policy which aims to maximize interests of Shareholders and at the same time, maintains a strong balance sheet for investment opportunities and sustainable development of the Group in the future. The Board will review these policies regularly to ensure their effectiveness.

The Board endeavours to maintain an on-going dialogue with Shareholders, general meetings of the Company provide the best opportunity for communication between the Board and Shareholders. Shareholders are encouraged to participate in general meetings or, if they are unable to attend meetings, to appoint proxies to attend and vote at the meetings on their behalf. At the annual general meeting held on 21 May 2018, a separate resolution was proposed by the chairman in respect of each substantially separate issue. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations. The chairman of the Board, the chairman of the Audit Committee, Remuneration Committee and Nomination Committee, and representative from the external auditors attended the 2018 annual general meeting to answer questions of Shareholders. Poll voting has been used for passing all resolutions at annual general meetings since 29 April 2005. Details of the poll voting procedures are clearly explained at the commencement of the meetings. The poll results are posted on the websites of the Company and the Stock Exchange on the same day of the poll.

In addition, information may also be communicated to Shareholders and the investment community through the following methods:

1. periodic disclosure through financial reports of the Company, including but not limited to interim and annual reports, financial statements, results announcement etc;

2. disclosure of information through circulars, announcements, notice of meetings and any other special notices whenever and wherever necessary in accordance with the Listing Rules;

3. the Company's website at http://www.yugang.com.hk and the Stock Exchange's website at www.hkex.com.hk; and

4. Shareholders may put enquires to the Board by sending letters to the Company's Principal Place of Business.

INVESTOR RELATIONS

There were no significant changes in the Company's constitutional documents during the year.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions are provided under note 32 of the Notes to Financial Statements.

Report of the Audit Committee

AUDIT COMMITTEE

The Company established the Audit Committee on 30 June 2005 which is chaired by Mr. Luk Yu King, James, with other members including Mr. Lee Ka Sze, Carmelo, Mr. Leung Yu Ming, Steven and Mr. Ng Kwok Fu. The composition of the Audit Committee comprises a majority of INEDs with diversified industry experience, such as accounting, legal, commercial or management sectors. The chairman has appropriate professional qualifications and experiences in accounting matters. The Audit Committee met regularly since its establishment and full minutes of the meeting of the Audit Committee were kept by the company secretary. Draft and final version of minutes of the Audit Committee meetings were sent to all members for comments and record within a reasonable time.

The Audit Committee is delegated by the Board to provide independent oversight of the Group's financial reporting process, relationship with external auditors, risk management and internal control systems of the Group. The Audit Committee held three meetings in 2018 and members' attendance records are disclosed in the section headed "Directors' Attendance and Time Commitment" of the Corporate Governance Report. The Audit Committee was effective in fulfilling its roles in 2018 and significant matters which were reviewed and discussed by the Audit Committee include the followings:

1. **Review of Financial Results**

   In the financial reporting process, the Audit Committee reviewed the respective work of management including the following:

   1.1 review and discuss with management the unaudited consolidated financial statements of the Group for the six months ended 30 June 2018 and recommend to the Board for approval;

   1.2 review and discuss with the management and external auditors the audited consolidated financial statements of the Group for the year ended 31 December 2018 and recommend to the Board for approval;

   1.3 review the 2018 interim report and 2018 annual report; and to consider any significant financial reporting judgments contained in them; and

   1.4 consider and discuss with management any significant or unusual items that may need to be reflected in the 2018 annual report and any matters that have been raised by the Company's staff responsible for accounting and financial reporting function, compliance officer or auditors (if any).

2. **Review of Risk Management & Internal Control Systems**

   The Audit Committee received from, and discussed with, management (i) Report on the effectiveness of the risk management of the Group; (ii) Report on the effectiveness of the internal control system of the Group; and (iii) Internal Audit report. The Audit committee has:

   2.1 reviewed on the effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance control, and risk management functions. The annual review had, in particular, considered the adequacy of resources, staff qualifications and experience, training programmes and budgets of the Company's accounting and financial reporting function;

   2.2 considered major investigation findings on risk management and internal control matters and management's response to these findings (if any);

   2.3 reviewed the financial and accounting policies and practices of the Group; and

   2.4 reviewed if any employees has raised concerns about any possible improprieties in financial reporting, internal control or other matters.

3. **Review the Independence of External Auditors**

The Audit Committee reviewed and considered the relationship of the external auditors in the following aspects:

3.1 to consider the terms of engagement of Ernst & Young, the Company's external auditors;

3.2 to consider the independence and objectivity of external auditors by reference to the Letter of Independence issued by Ernst & Young; and the effectiveness of the audit process in accordance with applicable standards;

3.3 to make recommendations to the Board on the re-appointment of the external auditors; and

3.4 to review the Policy on Engaging External Auditors to Supply Non-audit Services.

4. **Review of Internal Audit Function**

The Audit Committee reviewed the internal audit functions of the Group and the scope of work performed by the Internal Audit team during the year including the followings aspects:

4.1 to review the internal control manual at corporate level to determine the main features of risk management and internal control systems;

4.2 to review strategies, policies, procedures and guidelines authorized by the Board from which operational activities and related internal controls are identified;

4.3 to meet with appropriate process owners/managers to identify business objectives, related risks and key controls for each process;

4.4 to review relevant plan, budget and management reports for each process to understand how management monitors the effectiveness of internal controls;

4.5 to review financial, operational and administrative information, documents and records for each process to ascertain that the related transactions are properly reflected in the accounting books and records and related assets are safeguarded;

4.6 to walk through selected procedures and inspect related documents with responsible personnel; and

4.7 to review the co-ordination between the internal and external auditors, adequacy of resources, standing and effectiveness of the internal audit function.

Report of the Risk Management & Internal Control Systems

The board (the "**Board**") of directors (the "**Directors**") of Yugang International Limited (the "**Company**") is pleased to present the Report of the Risk Management & Internal Control Systems of the Group. The Board acknowledges the responsibility of establishing, maintaining and operating sound and effective risk management and internal control systems on an ongoing basis and to safeguard shareholders' investment and the Company's assets. The Audit Committee is delegated by the Board, with the assistance of the internal audit team, to oversee the Group's risk management framework and internal control systems and review their effectiveness periodically. The management is responsible for designing, implementing and monitoring of the Group's risk management framework and internal control systems, identifying and evaluating the Group's key existing and potential risks, and determining their respective control measures and/or mitigation strategies, so as to ensure the effectiveness of the risk management & internal control systems.

INTERNAL CONTROL SYSTEM

The Group's internal control system comprises a well-established organizational structure, comprehensive budgeting, reporting, policies and procedures, aiming to identify and manage, rather than eliminate risks that could adversely hinder the achievement of business objectives of the Company, provide reasonable, albeit not absolute, assurance against failure in operational system, material error, loss or fraud to the Company.

RISK MANAGEMENT

The Board considers that risk management and internal controls are closely related and typically embedded in the daily business operations of the Company. By reference to COSO's Enterprise Risk Management, the Board adopts the dual Top-down-Bottom-up Approach in designing risk management framework which is a process effected by the Board, the Audit Committee, internal audit team, management and all business units of the Company in applying strategy setting of the Company to identify potential risk that may affect the business performance of the Company, evaluate and manage the risk within the risk appetite of the Group, and to provide reasonable assurance regarding the achievement of the Company's objectives. Instead of a separate or standalone process, risk management is integrated into business processes of the Group, including strategic development, business planning, capital allocation, investment decisions, internal control and day-to-day operation of the Company.

INTERNAL AUDIT FUNCTIONS

At a meeting of the Board held on 3 December 2015, the Board approved the establishment of an internal audit functions to assist the Audit Committee to review and evaluate the adequacy and effectiveness of the risk management and internal control systems of the Group and to manage the risks inherent in the achievement of business objective of the Company. Further details of the audit works together with the assessment of the risk management and internal control systems were contained in the section headed "Review of Internal Audit Function" on the Report of the Audit Committee.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Board adopted the Inside Information Policy in line with the "Inside Information" disclosure regime under the Securities and Future Ordinance which sets out the framework and guidelines to Directors, officers and all employees of the Group in dealing with, control and release of inside information of the Group, and to ensure that inside information can be promptly identified, assessed and broadly disseminated to the public in equal and timely manner in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), applicable laws and regulations.

RISK MANAGEMENT FRAMEWORK

The following diagram highlights the risk management framework of the Group and their respective responsibilities:

Top-down Approach:

- Overseeing
- Definition of Risk
- Risk Identification
- Risk Evaluation
- Risk Monitoring, control measures and mitigation at corporate level

The Board

- Overall responsibility for maintaining sound and effective risk management and internal control systems;
- Oversee risk management framework and provide direction & strategic objectives;
- Determine risk profile & tolerance level of risk appetite; and
- Review the effectiveness of the risk management and internal control systems

The Audit Committee

- Assist the Board in overseeing the Group's risk management framework;
- Review the effectiveness of the risk management and internal control systems; and
- Review risk management report and breach of risk appetite (if any)

Management

- Design, implement & monitor of the Group's risk management framework;
- Formulate risk management strategy; and
- Assess emerging risk related to the Group's business & design respective control measures and mitigation strategies

Internal Audit

- Assist the Audit Committee in reviewing the effectiveness of the risk management & internal control systems

Business Units

- Risk identification, evaluation & mitigation performed across business units; and
- Risk management process & internal control practice across business operations and functional areas

Bottom-up Approach:

- Risk Identification
- Risk Evaluation
- Risk Monitoring, control measures and mitigation at departmental level

The Board considers that the risk management framework of the Group shall encompass the following key processes:

1. **Definition of Risk**
   The Company considered COSO'S Enterprise Risk Management Framework and defined risk as the possibility that the occurrence of an event may adversely affect the achievement of business objectives of the Company. Events can either have a negative or positive impact. An event with a positive impact represents an opportunity, whilst an event with a negative impact on the Company's business objective is identified as a risk, which may prevent value creation or erode the existing value of the Company. Risks include risk of loss resulting from failure of internal processes of the Company, or changes in economy or external environments such as changes in the investment market, in systems, in process, in competitor products etc.

2. **Risk Identification**
   The Board understands that risk is an integral part of business, improvement in Company's performance and greater returns for investors are direct results of measured and successful risk-taking. The challenge is therefore identification of risks, selection of tolerable risk appetite based on business needs of the Company, and proper monitoring and management of risks so that risks can be reduced, transferred, avoided or understood. The risk objective of the Company is therefore managing risk instead of eliminating so as to provide reasonable, albeit not absolute assurance against material misstatement or loss of the Company.

   The process of risk identification will consider both internal and external factors which may adversely affect the achievement of the Company's objectives. The tools used in identifying risk are "Data Collection" and "Risk Control Self-Assessment" ("**RCSA**"), a process in which potential material risks are identified and recorded with their related controls. In applying RCSA, the Group used survey and expert judgment to obtain a thorough understanding of different risk categories arising from different possible sources of uncertainties in both external and internal environment associated with each of business units of the Group. Through discussions with management, opinions on the business and operational risks are then collected. Most of the potential risk factors will then be undergone an assessment and evaluation process in order to determine the key and critical factors to the Group. All the identifiable potential risks will then be identified and evaluated by: (i) relevance to the Group's businesses; (ii) likelihood of occurrence; and (iii) possible level of impact to the Group.

3. **Risk Evaluation**
   Risk evaluation is the analysis of the existing and emerging risks to form the basis for the Company to determine appropriate actions or mitigation measures to manage risks. The principal activities of the Group include treasury management, property investment, property leasing and money lending business, which may all be influenced by various external and internal risk factors. The identifiable risks will then be evaluated by: (i) COSO evaluation check; and (ii) risk weighting.

   The Group uses "risk weighting" to represent the top five risks that may significantly affect the Group's businesses and take measures to determine appropriate actions to manage risk. The setting of "risk weighting" aligns with the tolerance level of risk appetite that the Group is willing to undertake in pursuit of its strategic and business objectives. The Group is willing to take reasonable risk only if it (i) fits the Group's business objectives and strategy; (ii) can be understood and managed; (iii) will not expose the Group to material financial loss or affect its ongoing financial viability; and (iv) will not breach of Listing Rules, laws and regulations applicable to the Group.

TOP FIVE IDENTIFIABLE RISKS

The Group has categorized the following top five risks that the Group are currently facing and exposing:

Risk Factors	Risk Categories	Weighing	Arise From	Risk Control and Mitigation
FINANCIAL				
• Market Risk	• Equity & Debt price risk • Interest rate risk • Currency exchange risk • Commodity price risk	Top 1	Treasury Management Business	- Control exposure amount - Hold debt investments until maturity - Maintain a well-diversified portfolio of securities
	• Property price and rental price risk		Property Leasing Business	- Maintain a well-diversified portfolio of investment properties including a mix of commercial, industrial and residential properties
• Credit Risk	• Default of loan and interest payment or credit loss • Loan concentration • Impairment of collateral	Top 2	Money Lending & Debt investment	- Periodic credit review - Control credit exposure to avoid concentration risk of borrowers and debt issuers
	• Overdue & credit loss of rental payment		Property Leasing Business	- Maintain high quality diversified tenant base
COMPLIANCE				
• Regulatory Compliance Risk	• Bribery, corruption or money laundering • Criminal acts e.g. fraud	Top 3	Maintaining of bank account, purchasing of office supplies.	- Maintain full set of legal documents
	• Non-compliance with applicable laws, regulations or contractual obligation		Company Secretarial & Accounts Department	- Regular review on contracts - Seek internal or external legal advice - Regular Compliance review on Listing Rules, Ordinances and Accounting Standards updates
OPERATIONAL				
• Human Resources	• Potential negligence or willful misconduct • Conflict of interests • Low morale & Staff turnover • Fraud or forgery • Insider dealing of securities	Top 4	HR & all business activities	- Provide good working environment and attractive salaries - Promote employee ethics through Employee Handbook and Code of Conduct - Procedures for employees to raise concern on any irregularities, misstatement and frauds - Segregation of duties, authorities and powers
• Cyber Security	• Data entry errors • Client or Vendor disputes • Misuse information of the Company • Hardware or Software Failures	Top 5	Admin & IT	- Regular check and review - Review existing practices or processes regularly - Review on the effectiveness of risk management and internal control systems

4. **Risk Monitoring, Control Measures & Mitigation**
The Company has the following risk monitoring, control measures and mitigation policies to monitor the Group's risk management and internal control systems:

4.1 The Company has documented the control processes in the Risk Management & Internal Control Manual ("**Manual**") which sets out all policies, procedures and guidelines for departments and employees to follow. In addition, the Company also adopted the "Procedure for Employees Raising Concerns about Possible Improprieties in Financial Reporting, Internal Control or other Matters" (the "**Procedures**") on 28 March 2012 so as to allow employees to raise concerns of impropriety to management or Audit Committee. The Company will review the Manual and the Procedures annually and periodically to modify policies and procedures if necessary so as to comply with the amendment of Listing Rules and/or other rules and regulations applicable to the Company;

4.2 The Company has established an effective and efficient reporting mechanism to anticipate, identify and report risk and material exposures to losses, and/or react to significant changes that may have a dramatic and pervasive effect on the Company or that may affect achievement of Company's objectives;

4.3 The Company has guidance in place to ensure that control self-assessment questionnaires are completed with the assistance of all department and unit heads and confirm to management that appropriate internal control policies and procedures have been properly complied with;

4.4 The Board understands that employees' behavior can be a major source of operational risk due to poorly trained or overworked employees. The Group has persistently promoted high standard of ethics and integrity with the aid of Employee Handbook and Code of Conduct. In addition, the Group has maintained a pleasant working environment, adequate workplace safety and satisfactory employment condition with a view to ensuring high standard of ethics and integrity;

4.5 The Board understands that unexpected changes or unforeseen interruption to the business operations can be a major source of operational risk. The Group has in place business continuity plans to ensure business operation of the Group on an ongoing basis, and limit losses in the event of severe business disruption if happened;

4.6 The Board is committed to maintaining a high standard of corporate governance practices which includes, among others, segregation of duties and responsibilities both in management and departmental level to ensure check and balance, avoidance of conflict of interest, accountability and reporting. All levels of staffs should understand their responsibilities with respect to operational risk management; and

4.7 At a meeting of the Board held on 3 December 2015, the Board approved the establishment of an internal audit function to assist the Audit Committee to review and evaluate the adequacy and effectiveness of risk management and internal control systems of the Group and to manage risks inherent in the achievement of business objective of the Company.

ANNUAL REVIEW

An annual review on the effectiveness of the Group's risk management and internal control systems covering all material controls, including financial, operational and compliance controls has been conducted by the Board and reviewed by the Audit Committee.

1. **Area of Review**
The review has, in particular, considered the following areas:

1.1 the effectiveness of the Group's risk management and internal control systems;

1.2 the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions;

1.3 the scope and quality of management's ongoing monitoring of risk management and internal control systems of the Group, and the work of the internal audit function;

1.4 any changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business, economy and external and environment;

1.5 the Company's ability in responding to incidence of significant control failing;

1.6 the extent and frequency of communication of monitoring results to the Board or Board Committees which enables it to assess control of the Company and the effectiveness of risk management and internal control systems;

1.7 significant control failing or weaknesses that have been identified during the Period (if any) and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and

1.8 the effectiveness of the Company's processes for financial reporting and Listing Rules compliance.

2. Governing Principles of Review

2.1 The Board understands that risk is an integral part of business, improvements in Company performance and greater returns for investors are direct results of measured and successful risk-taking. As such, the Board acknowledges the responsibility to maintain a good and proper risk management and internal control systems and reviews its effectiveness periodically;

2.2 The implementation of the risk management and internal control systems of the Group are designed to identify and manage risks that may adversely hinder the achievement of the objectives of the Company, provide reasonable, albeit not absolute assurance against failure in operational system, material error, or loss of fraud to the Company. The risk profile and tolerance level of risk appetite will be determined based on the businesses needs and organizational structure of the Group; and

2.3 The Company's objectives, its organizational structure and environment in which it operates are continuously evolving and as a result, the risk appetite is continually changing. As such, the Company undertakes a continuously thorough and ongoing evaluation of risk management framework whenever a material change in the risk profiles of the Group occurs.

3. Summary of Review

The process of annual review on the effectiveness of the risk management and internal control systems of the Group included reviews on the Company level as well as on departmental level. Review on Company level was conducted by reference to the Corporate Governance Code and Guidance on Internal Control and Risk Management – A Basic Framework published by Hong Kong Institute of Certified Public Accountants. Evaluations on i) Control Environment; ii) Financial and Operational Control; and iii) Compliance Control were made. The Review has, in particular, considered the adequacy of resources, staff qualifications & experience, training programmes and budgets of the Company's accounting & financial reporting function. In addition, departmental reviews on procedural compliance and proper documentation filing were conducted by testing against the Internal Control Manual and Corporate Governance Code.

The Board is of the view that, the risk management and internal control systems of the Group for the year under review is sound and effective, and sufficient to safeguard the interests of shareholders and assets of the Company. The Board also considers that the resources, staff qualifications and experience, training programmes and budget of the Company's accounting staff, internal audit and financial reporting functions are adequate. There was no indication of significant control failing or material weaknesses that may affect the financial, operational, compliance controls and risk management function of the Group, nor any suspected frauds, misstatement or infringement of applicable laws, rules and regulations were identified during the Review. The Group did not receive any concerns about possible improprieties from employees during the period under review. Throughout the period under review, the risk management and internal control systems of the Group have been operated effectively.

Save and except as disclosed herein and since the last annual review, no significant changes were found in the nature and extent of significant risks, nor the Company's ability to respond to changes in the business and external environment.

Environmental, Social and Governance Report

The board (the "**Board**") of directors (the "**Director(s)**") of Yugang International Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") is pleased to present the Environmental, Social and Governance Report (the "**ESG Report**") which is made in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The information disclosed in the ESG Report is derived from the internal statistics, results and analyses of the Group's internal management systems.

SUSTAINABILITY APPROACH AND STRATEGY

The Board is committed to the long-term sustainable development of environmental, social and governance ("**ESG**") practice and its reporting. The Board recognises the importance of ESG factors and aims to manage ESG issues and their associated risks, and adhere to a high standard business practices in maintaining environmental and social sustainability. In addition, the Board is committed to engaging ESG considerations as an integral part of business operations of the Group and strives to continually improve our environmental performance in line with Corporate Governance Code, environmental protection laws, applicable rules and regulations. The Company will further enhance ESG management by actively participating in community engagement and ensuring our business development will take into consideration the communities' interests.

THE ESG POLICY

In furtherance of this commitment, the Board adopted the ESG Policy of the Company (the "**ESG Policy**") on 6 June 2016 aiming to set out guidelines and framework for the Company to handle ESG issues associated with the business operation and investment of the Group. The ESG Policy applies to all Directors, management and employees throughout the Group and all employees have a duty to uphold the standards established in the ESG Policy, which enable the Company to achieve a high standard of business ethics, governance and integrity.

SCOPE OF REPORT AND PERIOD

The ESG Report covers the core businesses of the Group in Hong Kong (the "**Core Businesses**") including: (i) Treasury Management Business; (ii) Property Leasing Business; and (iii) Money Lending Business. In view of the business nature of the Group, we are not aware of any environmental laws and regulations that would have a significant impact on the Group. The ESG Report disclosed information on the Company's ESG Policy and performance, management approach, strategy, priorities and objectives during the period of 1 January 2018 to 31 December 2018.

STAKEHOLDER ENGAGEMENT

The Group's main stakeholder engagement in ESG promotion includes employees, shareholders, local communities, investors and regulators. The Company shall ensure the communication of the ESG Policy, management strategy and approach of the Company in environmental protection to our stakeholders through different channels including annual general meeting, the Company's website and regular seminars to employees, etc.

GOVERNANCE STRUCTURE

The Board is responsible for formulating ESG strategy and reporting, evaluating and determining the Company's ESG related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Management is responsible for assisting the Board in discharging the above duties and responsibilities, implementing the ESG Policy, and providing confirmation to the Board on the effectiveness of ESG risk management and internal control systems. Management will, where appropriate, delegate ESG responsibilities to officers and managers at departmental levels, or instruct external professionals in the identification and management of its risks and opportunities.

REPORT ON ENVIRONMENTAL ASPECTS

A.1. Emissions

The Company complied with the ESG Policy, Corporate Governance Code, environmental protection laws and all the applicable laws and regulations that have a significant impact on the Company relating to air and greenhouse gas emission, discharges into water and land, and/or generation of hazardous and non-hazardous waste. The operation of the Core Businesses of the Group do not have significant impact on the environment and the Group has taken the following steps to closely monitor and manage the environmental effect of the operations of the business:

1.1 The Company did not generate significant greenhouse gas emissions as the emissions are indirectly and principally resulting from consuming electricity and gases at the workplace, vehicles and business travels by employees;

1.2 Environmental or green procurement-related materials have been distributed to employees to enhance their awareness on ESG issues. Actively encourage employees to cherish our environment and embrace green products, foster low carbon office and green working environment, whenever practicable;

1.3 The indoor temperature and running time of air-conditioning system are controlled to reduce energy consumption and carbon emissions;

1.4 Employees were encouraged to enhance energy efficiencies and water conservation, and take reduction initiatives to manage non-hazardous waste generation in our business operation; and

1.5 The Company did not generate hazardous waste during its business operation for the Core Businesses, discharge of water and non-hazardous waste were divided into recyclable or non-recyclable waste and handled in an environmentally responsible manner in line with the applicable environmental protection laws and regulations whenever practicable.

A.2. Use of Resources

Due to the Group's business nature, the energy, power and water utilization is relatively low and only restricted to workplace. The Group is committed to conserve natural resources and the Company has adopted green office practices to reduce natural resources consumption which included the followings:

2.1 The Group strive to minimize environmental impact by encouraging employees to conserve resources by reducing energy consumption and water usage, and exploring energy use efficiency initiatives or alternatives, whenever practicable;

2.2 The Group encourages employees to handle documents electronically. When the use of paper is required, employees are encouraged to print documents in double-sided papers and black-and-white to conserve printer ink;

2.3 Recycle bins are placed in the office to encourage employees to use recycle office supplies whenever practicable;

2.4 Teleconference and internet-meeting is encouraged to avoid unnecessary business travel;

2.5 The Group used woodfree FSC certified paper in printing of its interim and annual reports since 2016; and

2.6 Office equipment particularly electrical appliances were set in standby mode whenever practicable and shut down after office hours.

A.3. The Environment and Natural Resources

The Company shall ensure compliance with all applicable environmental related legislations and regulations. Notwithstanding the Core Businesses of the Group has remote impact on the environment and natural resources, the Board is committed to give careful consideration to identify whether the Company's performances in respect of emissions, waste production and disposal, and use of resources have negative impacts on the environment and take initiative measures and actions to manage and minimize these impacts whenever practicable in order to achieve a long-term sustainable development of ESG practice.

REPORT ON SOCIAL ASPECT

B.1 Employment and Labour Practices

Employees are regarded as the greatest value of the Company. The Company adheres to fair and open recruitment of staff, and provides protection of rights and interests for employees. The Company's Remuneration Policy is to ensure fair and competitive packages based on business needs and industry practice. The Company aims to provide incentives to Directors, senior management and employees to perform at their highest levels as well as to attract, retain and motivate the very best people. Remuneration will be determined by taking into consideration factors such as market and economic situation, inflation, employment conditions elsewhere in the Group and salaries paid by comparable companies. In addition, performance-based assessment such as individual's potential and contribution to the Company, time commitment and responsibilities undertaken will all be considered. The Group also provides other staff benefits including MPF, medical insurance and discretionary training subsidy. The Company also operates a discretionary share option scheme to motivate the performance of employees.

The Company complied with the Employment Ordinance (Cap 57 of the Laws of Hong Kong) and all the relevant laws and regulations that have a significant impact on the Company relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare for the year ended 31 December 2018.

B.2 Health and Safety

The Company is committed to enhance occupational safety and ensure that health and safety standards are given prime consideration in the operation of our business. Initiative safety measures have been/will be taken to maintaining a safe working environment sufficiently enough to protect employees from occupational hazards.

The Group provides a safe, healthy and hygienic working environment to staff with labour protection, reasonable remuneration and various welfares. The Company provides medical insurance covering out-patient, hospitality and annual body checkup for employees. The Company encourages employees to maintain a work-life balance and numerous sports and recreation activities have been/will be conducted through Staff Club which includes health & nutrition talks, yoga class and outing activities.

The Company complied with all the relevant laws and regulations that have a significant impact on the Company relating to providing a safe working environment and protecting employees from occupational hazards during the year ended 31 December 2018.

B.3 Development and Training

The Company acknowledges the importance of continuous training of employees and has in place a comprehensive training scheme and program to enhance professional ethics and product knowledge of employees. The Company has periodically arranged seminars, briefings or trainings on regulatory updates or industry practices related to the business needs of the Company and encouraged Directors and employees to attend at the Company's expenses. In addition, the Company has/will provide(d) training subsidy to employees attending job-related training courses.

B.4 Labour Standards

The Company is committed to preventing and effectively eliminating all forms of child and forced labour. The Company has complied with all the relevant laws and regulations that have a significant impact on the Company relating to preventing child and forced labour.

B.5 Supply Chain Management

The Group's business operation may not directly cause significant negative environmental and social impacts to our suppliers. However, the Company shall ensure the communication of the ESG Policy and management's strategy and approach in environmental protection to our stakeholders including suppliers and employees for the purpose of managing potential environmental and social risks of the supply chain.

B.6 Product Responsibility

The Company shall ensure compliance with relevant laws and regulations that have a significant impact on the Company relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress. The Company aims to incorporate ESG consideration in our business operation and investment decisions.

B.7 Anti-corruption

The Company's anti-bribery and anti-corruption practices are governed by the Code of Conduct of the Company which provides clear guidelines for employees to work in an ethical and socially responsible manner. The Company has adopted the "Policy for Employees Raising Concerns about Possible Improprieties in Financial Reporting, Internal Control or Other Matters" which allows employees to voice out their concerns in confidence without fear of victimization, subsequent discrimination or disadvantage. The Company complied with relevant laws and regulations that have a significant impact on the Company relating to bribery, extortion, fraud and money laundering, among other things, Prevention of Bribery Ordinance (Cap 201 of the Laws of Hong Kong).

B.8 Community Engagement

The Company is committed to delivering positive community engagement, particularly understanding the needs of the communities where the Company operates its business, and ensuring our business activities and investments shall take into consideration the communities' interests. The Company's community involvement includes the direct or indirect participating and/or contributing to dedicated projects through donations. The Board also recognizes ESG practice as a continuous process of improvement and actively carries out environmental friendly practices whenever appropriate and possible.

ENVIRONMENTAL KPIS

No. of relevant employee as at 31 December 2018 (U) = 16

KPIs		Data Collection			Emission Factor	Equivalent Emissions	% of total GHG Emission in each scope
A1.1	Emission from vehicles	For NOx Formula: NOx emissions (g) (kilometres travelled x Emission Factor)	Kilometres travelled	17,195 km	0.0747	1,284.47 g/km	
		For SOx Formula: SOx emissions (g) (units of fuel consumed x Emission Factor)	Fuel consumed	2,660.37 L	0.0147	39.11 g/L	
		For PM Formula: PM emissions (g) (kilometres travelled x Emission Factor)	Kilometres travelled	17,195 km	0.0055	94.57 g/km	
A1.2	Greenhouse gas emissions in electricity	Scope 1 — HFC and PFC emissions for refrigeration (refrigerant HFC-134a)	Refrigerant inventory at beginning	18.50 kg	1430	0.00 tonne	0%
			Refrigerant added to inventory	0.00 kg			
			Disposed refrigerant	0.00 kg			
			Refrigerant inventory at end	18.50 kg			
			Total amount of refrigerant consumed	0.00 kg			
		Scope 2 — Electricity	Total amount of electricity consumed	25,028.00 kWh	0.79	19.772 tonne	89.300%
		Scope 3 — Paper waste disposed at landfills	Paper inventory at beginning	178.58 kg	4.8	2.214 tonne	10.001%
			Paper added to inventory	2,201.05 kg			
			Paper collected for recycling	1,801.20 kg			
			Paper inventory at end	117.1 kg			
			Total amount of paper consumed	461.33 kg			
		Scope 3 — Electricity used for processing fresh water and sewage	For fresh water processing	255.75 m^3	0.403	0.103 tonne	0.699%
			For sewage processing	255.75 m^3	0.202	0.052 tonne	
		Total CO_2 equivalent emissions (E)					22.141 tonne
		Greenhouse gas emissions intensity (E/U)					1.38 tonne/employee

KPIs		Data Collection			Emission Factor	GWP	Equivalent Emissions
A1.2	Greenhouse gas emissions from mobile combustion sources (road, air and water transport)	Scope 1 — Direct emissions for vehicles For CO_2 Formula: CO_2 equivalent emissions (E) = A x Emission Factor	Fuel consumed A — amount of consumed (in terms of volume (eg litre) or mass)	2,660.37 L	2.36		6,278.47 kg/L
		Scope 1 — Direct emissions for vehicles Fuel consumed For CH_4/N_2O Formula: CO_2equivalent emissions (E) = A x Emission Factor x GWP	GWP — global warming potential				
		CH_4	(CH_4= 21)	2,660.37 L	0.000253	21	14.13 kg/L
		N_2O	(N_2O = 310)	2,660.37 L	0.001105	310	911.31 kg/L
A1.3	Hazardous waste produced	Not applicable					
A1.4	Non-hazardous waste produced	Total non-harzardous waste produced (NHW)	By Landfill	1.78 tonne	Intensity		
			By Recycled	1.80 tonne	Non-hazardous waste intensity (NHW/U)	Non-hazardous waste intensity (NHW/U)	0.22 tonne/ employee
			By incineration	0.01 tonne			
			Total non-harzardous waste produced	3.59 tonne			
A1.5	Measures to mitigate emissions and results achieved	Please refer to A.1 on pages 28 to 29					
A1.6	How hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Please refer to A.1 on pages 28 to 29					
A2.1	Direct & indirect energy consumption	Total amount of electricity consumed (EG)		25,028.00 kWh	Energy consumption intensity (EG/U)	Energy consumption intensity (EG/U)	1,564.25 kWh/ employee
A2.2	Water consumption	Total amount of water consumed (W)		255.75 m^3	Water consumption intensity (W/U)	Water consumption intensity (W/U)	15.98 m^3/ employee
A2.3	Description of energy use efficiency initiatives and results achieved	Please refer to A.2 on page 29					
A2.4	Sourcing water that is fit for purpose, water efficiency initiatives and results achieved	N/A					
A2.5	Total packaging material used for finished products	N/A					
A3.1	Description of significant impacts of activities on the environment and natural resources and actions taken to manage them	The operation of the Core Businesses of the Group do not have significant impact on the environment					

Report of the Directors

The board (the "**Board**") of directors (the "**Directors**") of Yugang International Limited (the "**Company**") has pleasure in presenting the report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Yugang International Limited is incorporated in Bermuda and its head office and principal place of business in Hong Kong is 25th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 1 "Corporate and Group Information" of the Notes to Financial Statements.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND STATE OF AFFAIRS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the financial statements on pages 47 to 98.

BUSINESS REVIEW

A fair review of business and a discussion and analysis on the performance of the Group during the year is set out in the section headed "Business Review" of the Chairman's Statement and Management Discussion and Analysis of the annual report. Discussion and analysis on particulars of important events affecting the Company that have occurred since the end of the financial year of 2018, and an indication of likely future development in the Company's business are set out in the sections headed "Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investment or Capital Assets" and "Significant Events since the End of the Reporting Period" of the annual report. In addition, a description of the principal risks and uncertainties facing the Group is set out in the section headed "Principal Risks and Uncertainties" of the Chairman's Statement and Management Discussion and Analysis of the annual report. An analysis using financial key performance indicators is set out in the section headed "Financial Review" of the Chairman's Statement and Management Discussion and Analysis of the annual report.

Environmental, Social and Governance ("ESG") Performance

The Company is committed to achieving sustainable development and protection of the environment and engaging ESG considerations as an integral part of our business operations and investment. The Company's strategy in ESG management can be achieved by adopting eco-friendly management practices, making efficient use of resources, and promoting green awareness within the Company. The Company strives to promote awareness on environmental protection and optimizes efficient use of energy in daily operation by encouraging employees to recycle office supplies, plus a series of measures to develop practices to promote energy-saving and emission reduction. The Company will further enhance ESG management by participating in community engagement and ensuring our business development will take into consideration the communities' interest. The Company has complied with all the applicable environmental laws and regulations that have a significant impact on the Company. Details of ESG practice of the Company are set out in the ESG Report of this annual report which are prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Compliance with Regulations

The Company complies with the relevant laws and regulations that have a significant impact on the Company including Companies Act 1981 of Bermuda, the Companies Ordinance (to the extent applicable to the Group), as well as the Listing Rules and the Securities and Futures Ordinance (the "**SFO**") for, among other things, the disclosure of information and corporate governance practice.

Relationship with Employee, Customers, Suppliers and Others

The Company actively manages its relationships with employees, customers, investors, regulators, members of the communities in which we operate, and other stakeholders whose actions can affect the Company's performance and value.

DIVIDEND

The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2018 (2017: HK$0.002 per share). No interim dividend in the form of cash was declared for the financial year of 2018 and 2017. An interim dividend by way of Distribution in Specie of The Cross-Harbour (Holdings) Limited and Distribution in Specie of Y. T. Realty Group Limited in an aggregate fair value of HK$1,460.1 million were declared for the financial year of 2018 (2017: Nil).

RESERVES

Particulars of movement in the reserves of the Company and the Group during the year are set out in note 35(b) of the Notes to Financial Statements and the Consolidated Statement of Changes in Equity respectively.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2018, calculated in accordance with Companies Act 1981 of Bermuda, amounted to HK$10,311,000 (2017: HK$933,602,000), none of which (2017: HK$18,611,000) was proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK$907,280,000 (2017: HK$907,280,000), may be distributed in the form of fully paid bonus shares.

BANK BORROWING

There was no bank borrowing of the Group as at 31 December 2018. The movement of bank borrowing of the Group for the year ended 31 December 2018 is set out in note 23 of the Notes to Financial Statements.

SEGMENT INFORMATION

An analysis of the segment performance of the Group for the year ended 31 December 2018 is set out in note 4 of the Notes to Financial Statements.

FIVE YEAR SUMMARY

A summary of the published results, assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on page 100. This summary does not form part of the audited financial statements.

EQUIPMENT

Particulars of the equipment of the Group and any movement thereof during the year are set out in note 14 of the Notes to Financial Statements.

INVESTMENT PROPERTIES

The Group's investment properties as at 31 December 2018 were revalued by an independent professional valuer. The increase in fair value arising on the revaluation, which has been credited directly to the Consolidated Statement of Profit or Loss, amounted to HK$24,918,000. Details of the investment properties of the Group and any movement thereof during the year are set out in note 15 of the Notes to Financial Statements, and Particulars of Properties on page 99 which does not form part of the audited financial statements.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and associate are set out in note 1 and note 16 of the Notes to Financial Statements respectively.

SHARE CAPITAL

Particulars of the Company's share capital and any movement thereof during the year are set out in note 25 of the Notes to Financial Statements.

PRE-EMPTIVE RIGHTS

There are no pre-emptive rights provisions in Companies Act 1981 of Bermuda or the bye-laws of the Company (the "**Bye-Laws**").

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed below, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

DONATIONS

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

DIRECTORS

The list of Directors during the year and up to the date of this annual report is set out in the Corporate Information of this annual report. Information about the Board, including appointment and re-election of Directors, is set out in the Corporate Governance Report. The biographical details of Directors and senior management is set out in the section headed "Profiles of Directors and Senior Management" of the annual report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

CHANGE IN INFORMATION OF DIRECTORS

Mr Yuen Wing Shing was elected as a non-executive director of Shengjing Bank Co., Ltd, a public company listed on the Stock Exchange (Stock Code: 02066) on 28 February 2018, subject to ratification of his eligibility by China Banking Regulatory Commission. Such ratification was obtained from the Commission and the term of his office commenced from 7 August 2018. Mr Yuen's updated biographical information contained in the section headed "Profiles of Directors and Senior Management" of this annual report.

Mr. Lee Ka Sze, Carmelo was appointed the chairman of Appeal Tribunal Panel constituted under the Buildings Ordinance for a period of 3 years from 1 December 2018 to 30 November 2021 and a member of the InnoHK Steering Committee for a period of 2 years from 4 February 2019 to 3 February 2021. Other information of Mr. Lee is set out in "Profiles of Directors and Senior Management" of the annual report.

Save as disclosed herein, upon specific enquiry by the Company and following confirmations from Directors, there is no change in information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Particulars of Directors' emoluments and the five highest paid employees of the Group are set out in note 9 and note 10 of the Notes to Financial Statements respectively.

MANAGEMENT CONTRACTS

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

DIRECTORS' SERVICE CONTRACT

No Director has a service contract with the Company that is not determinable by the Company within one year without compensation (other than statutory compensation). No Director has a service contract with the Company that are exempted under Rule 13.69 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

There were no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with the Director had a material interest, whether directly or indirectly, subsisting during or at the end of the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, during the year and up to the date of this annual report, none of Directors and their associates had any interest in business which competed or was likely to compete, directly or indirectly, with the principal business of the Group.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting principles. None of which were subject to the reporting requirements under Chapter 14A to the Listing Rules. Details of these transactions are disclosed in note 32 of the Notes to Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

In 2018, revenue to the Group's five largest customers accounted for 24.0% of the total revenue for the year whereas revenue to the largest customer included therein amounted to 5.7%. There was no purchase from suppliers by the Group during the year.

None of Directors, their associates or any shareholders who, to the knowledge of Directors, own more than 5% of the issued shares, had any interest in any of the five largest customers.

MANDATORY PROVIDENT FUND

The Group operates a defined contribution Mandatory Provident Fund Scheme (the "**MPF Scheme**") for all of its employees. Particulars of the MPF Scheme are set out in note 2.4 of the Notes to Financial Statements.

CORPORATE GOVERNANCE

The Company's principal corporate governance practice is set out in the Corporate Governance Report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this annual report as required under the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the listed securities of the Company during the year.

PERMITTED INDEMNITY PROVISIONS

The Bye-Laws provides that each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

Such permitted indemnity provisions have been in force throughout the year under review and is currently in force at the time of approval of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2018, the interests and short positions of Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO (the "**Associated Corporations**")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

Long positions in the shares of the Company:

Name of Director	Nature of Interest	Number of Ordinary Shares Held	Percentage of Issued Share Capital
Mr. Cheung Chung Kiu	Interest of controlled corporation *(note 1)*	4,046,389,740	43.49
	Beneficial owner	53,320,000	0.57
Mr. Zhang Qing Xin	Beneficial owner	13,600,000	0.15
Mr. Lam Hiu Lo	Beneficial owner	41,800,000	0.45
Mr. Liang Kang	Beneficial owner	30,000,000	0.32

Notes:

(1) Under Part XV of the SFO, Mr. Cheung Chung Kiu is deemed to be interested in 3,194,434,684 shares which are held by Chongqing Industrial Limited ("**Chongqing**") and 851,955,056 shares are held by Timmex Investment Limited ("**Timmex**").

Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have 35%, 30%, 5% and 30% equity interests in Chongqing respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.

Save as disclosed above, as at 31 December 2018, none of Directors or chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The share option scheme of the Company (the "**Share Option Scheme**") was adopted on 21 May 2015, the terms of which are in line with and complies with the requirements of Chapter 17 of the Listing Rules.

The particulars in relation to the Share Option Scheme that are required to be disclosed under Rules 17.07 to 17.09 of the Listing Rules are set out below:

(1) Purpose — To provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits, to the Participants (as hereinafter defined) and to serve such other purposes as the Board may approve from time to time.

(2) Participants — It includes any director (or any persons proposed to be appointed as such, whether executive or non-executive), officer or employee (whether full—time or part-time) of each member of the Eligible Group (as hereinafter defined); any business consultant, professional or other advisers (in the areas of legal, technical, financial or corporate managerial) (including any executive, officer or employee of such business consultant, professional and other advisers) to each member of the Eligible Group (or persons proposed to be appointed as such) who has rendered service or will render service to the Group, as absolutely determined by the Board;

The Eligible Group includes:

(i) the Company and each of its substantial Shareholders; and

(ii) each associate or substantial shareholder or direct or indirect subsidiary, associated company or joint venture of any of the Company or of a substantial shareholder referred to in (i) above; and

(iii) each associate or substantial shareholder or direct or indirect subsidiary, associated company or joint venture of any of the foregoing entities referred to in (ii) above; and

		(iv) each associate or substantial shareholder or direct or indirect subsidiary, associated company or joint venture of any of the foregoing entities referred to in (iii) above; and (v) each associate or substantial shareholder or direct or indirect subsidiary, associated company or joint venture of any of the foregoing entities referred to in (iv) above.
(3)	The total number of securities available for issue under the Share Option Scheme together with the percentage of the issued share capital as at the date of the annual report	930,527,675 ordinary shares which represent 10% of the issued share capital of the Company as at the date of the annual report.
(4)	The maximum entitlement of shares of each Participant	(a) Subject to sub-paragraphs (b), (c) and (d) below, the total number of shares issued and to be issued upon exercise of all options granted to each Participant under the Share Option Scheme and any other share option schemes of the Company (including those exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1 per cent of the total number of shares in issue. (b) Notwithstanding sub-paragraph (a), where any further grant of options to a Participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such Participant (including those exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent of the total number of shares in issue, such further grant must be separately approved by the Shareholders in general meeting with such Participant and his or her close associates, or his or her associates if the Participant is a connected person of the Company (all within the meaning as ascribed under the Listing Rules), abstaining from voting. (c) Each grant of options to a Participant who is a director, chief executive or substantial shareholder of the Company (all within the meaning as ascribed under the Listing Rules) or any of their respective associates, must be approved by the INEDs (excluding any INED who is a proposed grantee). (d) Where the Board proposes to grant any option to a Participant who is a substantial shareholder or an INEDs, or any of their respective associates which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to the Participant under the Share Option Scheme and any other share option schemes of the Company in the 12-month period up to and including the date of such grant: (i) representing in aggregate more than 0.1 per cent of the total number of shares in issue; and (ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000,

		such proposed grant of options must be approved by the Shareholders in general meeting. The Participant, his or her associates, and all core connected persons (within the meaning as ascribed under the Listing Rules) of the Company shall abstain from voting in favour at such general meeting.
(5)	The period within which the securities must be taken up under an option	An option may be exercised at any time during a period to be determined and notified by Directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the Share Option Scheme.
(6)	The minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by Directors.
(7)	Amount payable on acceptance of the option and the period within which such payment must be made	The offer of a grant of share options may be accepted with a consideration of HK$1.00 being payable by the grantee.
(8)	The basis of determining the exercise price	The exercise price shall be a price solely determined by the Board and shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option which must be a Business Day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 consecutive Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. Without prejudice to the generality of the foregoing and subject to the Listing Rules, the Board may grant the options in respect of which the exercise price is fixed at different prices for different periods during the option period.
(9)	The remaining life of the Share Option Scheme	The Share Option Scheme remains in force until 20 May 2025.

Share options do not confer rights on the holders to dividends or to vote at Shareholders' meetings. No shares options had been granted since adoption of the Share Option Scheme, nor were there any outstanding share options as at 31 December 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' and Chief Executive's Interests" and "Share Option Scheme" above, at no time during the year under review, was the Company or any of its subsidiaries or its holding company, a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of Directors, or any of their associates, had any interests in or was granted any rights to subscribe for shares, or had exercised any such rights.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following persons had interests or short positions in the shares or underlying shares which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO; or as otherwise notified to the Company and the Stock Exchange:

Long positions in the shares of the Company:

Name	Notes	Capacity and Nature of	Number of Ordinary Shares Held	Percentage of Issued Share Capital
Timmex Investment Limited	1	Beneficial owner	851,955,056	9.16
Chongqing Industrial Limited	2	Beneficial owner	3,194,434,684	34.33
Palin Holdings Limited	3	Interest of controlled corporation	3,194,434,684	34.33
Mr. Cheung Chung Kiu	4	Interest of controlled corporation	4,046,389,740	43.49
		Beneficial owner	53,320,000	0.57

Notes:

(1) Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.

(2) The voting rights of these shares are exercisable by Chongqing which is controlled by Mr. Cheung Chung Kiu.

(3) Under Part XV of the SFO, Palin Holdings Limited ("**Palin**") is deemed to be interested in 3,194,434,684 shares held by Chongqing since Palin is entitled to control the exercise of 65% of the voting power at general meetings of Chongqing. Such interest in Chongqing is also held by Palin in the capacity as the trustee of Palin Discretionary Trust, a family discretionary trust, the objects include Mr. Cheung Chung Kiu and his family.

(4) Out of 4,046,389,740 shares, 3,194,434,684 shares and 851,955,056 shares are held by Chongqing and Timmex.

Save as disclosed above, as at 31 December 2018, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares that were recorded in the register required to be kept by the Company under section 336 of the SFO; or as otherwise notified to the Company and the Stock Exchange.

AUDITORS

The financial statements for the year ended 31 December 2018 have been audited by Messrs. Ernst & Young, Certified Public Accountants, who will retire at the forthcoming annual general meeting (the "**AGM**"), being eligible, offer themselves for reappointment at the AGM. A resolution for re-appointment of Messrs. Ernst & Young as auditors of the Company and to authorize Directors to fix their remuneration will be proposed at the AGM.

By order of the Board

Yuen Wing Shing
Managing Director

Hong Kong, 22 March 2019

Cheung Chung Kiu, aged 54, was appointed the chairman and an executive Director in 1993. Mr. Cheung is the chairman and a member of the Nomination Committee, a member of the Remuneration Committee and an authorised representative of the Company under the Companies Ordinance and the Listing Rules. Mr. Cheung also serves as a director of several subsidiaries of the Company. In addition, Mr. Cheung is the director of Palin Holdings Limited, Chongqing Industrial Limited and Timmex Investment Limited, all are companies disclosed in the section headed "Interests of Substantial Shareholders" of the annual report. Mr. Cheung is the founder of the Company and set up Chongqing Industrial Limited in 1985. Mr. Cheung is also the chairman and managing director of Y. T. Realty Group Limited, the chairman of The Cross-Harbour (Holdings) Limited and C C Land Holdings Limited, all are public companies listed on the Stock Exchange. Further, Mr. Cheung is the son of Mr. Zhang Qing Xin, a Director of the Company.

Yuen Wing Shing, aged 72, was appointed an executive Director in 1993 and the managing director of the Company on 1 January 2005. He is the authorized representative of the Company under the Listing Rules and also serves as a director of several subsidiaries of the Company. Mr. Yuen is responsible for the Group's administration and business operations. Mr. Yuen obtained a Diploma in Management Studies awarded jointly by the Hong Kong Polytechnic and Hong Kong Management Association in 1986. Prior to joining the Company, he held senior management position with a major bank in Hong Kong for over 20 years. In addition, Mr. Yuen is also an executive director of Y. T. Realty Group Limited and The Cross-Harbour (Holdings) Limited, and a non-executive director of Shengjing Bank Co., Ltd, all of which are public companies listed on the Stock Exchange.

Zhang Qing Xin, aged 82, was appointed an executive Director in 1995. Mr. Zhang has over 20 years of experience in import and export trading business. Prior to joining the Company, he was the Deputy General Manager of a foreign trade enterprise for more than 10 years. Mr. Zhang is the director of Chongqing Industrial Limited, the major shareholder of the Company. Further, Mr. Zhang is the father of Mr. Cheung Chung Kiu, the chairman of the Company.

Lam Hiu Lo, aged 57, was appointed an executive Director in 1993. He also serves as a director of several subsidiaries of the Company. He is mainly responsible for business development and investment of the Group. He is an independent non-executive director of EVA Precision Industrial Holdings Limited, a public company listed on the Stock Exchange.

Liang Kang, aged 76, was appointed an executive Director in 1995. He is mainly responsible for the business development of the Group. Prior to joining the Company, he engaged in trading business in the PRC for over 16 years.

Lee Ka Sze, Carmelo, aged 58, was appointed an INED in 1993 and re-designated as a non-executive Director on 30 September 2004. He is also a member of the Audit Committee. Mr. Lee obtained a Bachelor of Laws degree and a Postgraduate Certificate in Laws from The University of Hong Kong. He qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory, Australia. Mr. Lee is a senior partner of Woo Kwan Lee and Lo, which firm had rendered professional services to the Company. Mr. Lee is a convenor and member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong, a Chairman of the Appeal Tribunal Panel constituted under the Buildings Ordinance, a member of the InnoHK Steering Committee, and a member of the Campaign Committee and a Co-Chairman of the Corporate Challenge Half Marathon of The Community Chest of Hong Kong. Mr. Lee served as the chairman of the Listing Committee of the Stock Exchange from 2012 to 2015 after serving as deputy chairman and member of the Listing Committee of the Stock Exchange from 2009 to 2012 and from 2000 to 2003 respectively. Mr. Lee is an independent non-executive director of China Pacific Insurance (Group) Co., Ltd., KWG Property Holding Limited and Esprit Holdings Limited; and a non-executive director of CSPC Pharmaceutical Group Limited, Hopewell Holdings Limited, Safety Godown Company, Limited and Termbray Industries International (Holdings) Limited, all are public companies listed on the Stock Exchange.

Luk Yu King, James, aged 64, was appointed an independent non-executive Director in 2007. He is the chairman and a member of the Audit Committee. Mr. Luk graduated from The University of Hong Kong with a bachelor degree in Science. He is a fellow of The Association of Chartered Certified Accountants, an associate of The Hong Kong Institute of Certified Public Accountants and an ordinary member of Hong Kong Securities and Investment Institute. Mr. Luk has over ten years of experience in corporate finance, securities and commodities trading business with several international and local financial institutions. Mr. Luk is an independent non-executive director of Y. T. Realty Group Limited and The Cross-Harbour (Holdings) Limited, all are public companies listed on the Stock Exchange.

Leung Yu Ming, Steven, aged 59, was appointed an independent non-executive Director in 2007. Mr. Leung is a member of the Audit Committee and Nomination Committee. He is also the chairman and a member of the Remuneration Committee. Mr. Leung holds a degree of master in accountancy from Charles Sturt University in Australia and a degree of bachelor of social science from The Chinese University of Hong Kong. Mr. Leung is an associate of The Institute of Chartered Accountants in England and Wales, and a fellow of The Association of Chartered Certified Accountants, The Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong respectively. Mr. Leung is also a practising certified public accountant in Hong Kong and a certified practicing accountant of CPA Australia. Mr. Leung previously worked in Nomura International (Hong Kong) Limited as an Assistant Vice-President in International Finance and Corporate Finance Department. He commenced public practice in auditing and taxation in 1990 and is currently a senior partner of a firm of certified public accountants. Mr. Leung has over 30 years of experience in assurance, accounting, taxation, financial management and corporate finance. Mr. Leung is an independent non-executive director of Suga International Holdings Limited, Y. T. Realty Group Limited, The Cross-Harbour (Holdings) Limited and C C Land Holdings Limited, all are public companies listed on the Stock Exchange.

Ng Kwok Fu, aged 47, was appointed an independent non-executive Director in 2004. Mr. Ng is a member of the Audit Committee, Remuneration Committee and Nomination Committee. Mr. Ng holds a certificate in accounting from Grant MacEwan Community College. Mr. Ng has over 26 years of experiences in marketing, trading and purchasing of construction materials and providing technical control, support and management in building projects. He is an independent non-executive director of Y. T. Realty Group Limited and The Cross-Harbour (Holdings) Limited, all are public companies listed on the Stock Exchange.

EY安永

To the shareholders of Yugang International Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Yugang International Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 47 to 98, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
As at 31 December 2018, the Group's investment properties amounted to HK$464,000,000, which were measured at fair value. The fair values of the investment properties were determined based on valuations by professional external valuers. Significant estimation is required to determine the fair values of the investment properties, which reflect market conditions at the end of the reporting period. Management engaged external valuers to perform valuations on these investment properties at the end of the reporting period and, in the absence of current prices in an active market for similar properties, the external valuers considered information from a variety of sources such as estimated rental value of the relevant properties and made assumptions about capitalisation rates. Related disclosures are included in notes 3 and 15 to the consolidated financial statements.	Our audit procedures to assess the valuations of investment properties included the following: • obtained and reviewed the valuation reports prepared by the external valuers engaged by the Group; • assessed the external valuers' qualifications, experience and expertise and considered their objectivity and independence; • involved our internal valuation specialists to assist us to assess the valuation methodologies applied and the key assumptions and estimates adopted in the valuations; • compared property-related data used as inputs for the valuations with underlying documentation; and • assessed the adequacy of the disclosures on the valuations of the investment properties in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Anthony S.T. Leung.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

22 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 *HK$'000*	2017 *HK$'000*
REVENUE	5		
Interest income from loan receivables		**15,253**	6,291
Interest income from debt investments at amortised cost		**447**	—
Other revenue		**50,258**	28,002
Total revenue		**65,958**	34,293
Other income and gains	5	**31,636**	137,228
Administrative expenses		**(26,814)**	(46,687)
Impairment losses on loan receivables	7	**(5,912)**	—
Other expenses	6	**(2,110)**	—
Finance costs	8	**(440)**	(745)
Share of profit of an associate		**28,048**	18,696
PROFIT BEFORE TAX	7	**90,366**	142,785
Income tax credit/(expense)	11	**18,814**	(15,280)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**109,180**	127,505
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic and diluted		**HK1.17 cents**	HK1.37 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
PROFIT FOR THE YEAR	**109,180**	127,505
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items that may be reclassified subsequently to profit or loss when specific conditions are met:		
Changes in fair value of an available-for-sale investment	—	(146,596)
Share of other comprehensive income/(loss) of an associate	**(20,957)**	38,289
Release of other reserves upon distribution in specie of shares in an associate	**230,861**	—
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**209,904**	(108,307)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**319,084**	19,198

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Equipment	14	**1,162**	635
Investment properties	15	**464,000**	437,300
Investment in an associate	16	**—**	554,278
Loan receivables	17	**94,084**	2,996
Debt investments at amortised cost	18	**66,769**	—
Available-for-sale investment	19	**—**	505,498
Prepayments and deposits	20	**3,787**	4,028
Other assets		**360**	360
Total non-current assets		**630,162**	1,505,095
CURRENT ASSETS			
Listed equity investments at fair value through profit or loss	19	**818,481**	1,080,205
Loan receivables	17	**21,000**	173,000
Prepayments, deposits and other receivables	20	**8,319**	9,702
Time deposits	21	**151,028**	46,957
Cash and bank balances	21	**17,855**	16,238
Total current assets		**1,016,683**	1,326,102
CURRENT LIABILITIES			
Other payables and accruals	22	**11,094**	9,654
Bank borrowing	23	**—**	7,500
Tax payable		**—**	145
Total current liabilities		**11,094**	17,299
NET CURRENT ASSETS		**1,005,589**	1,308,803
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,635,751**	2,813,898
NON-CURRENT LIABILITIES			
Other payables and accruals	22	**2,477**	2,196
Deferred tax liabilities	24	**895**	19,698
Total non-current liabilities		**3,372**	21,894
Net assets		**1,632,379**	2,792,004
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	25	**93,053**	93,053
Reserves	26	**1,539,326**	2,698,951
Total equity		**1,632,379**	2,792,004

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to equity holders of the Company							
	Notes	Issued capital *HK$'000*	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Available-for-sale investment revaluation reserve *HK$'000*	Asset revaluation reserve# *HK$'000*	Other reserves## *HK$'000*	Retained profits *HK$'000*	Total equity *HK$'000*
At 1 January 2017		93,053	907,280	760,799	236,960	49,211	(248,193)	992,307	2,791,417
Profit for the year		—	—	—	—	—	—	127,505	127,505
Other comprehensive income/(loss) for the year:									
Changes in fair value of an available-for-sale investment		—	—	—	(146,596)	—	—	—	(146,596)
Share of other comprehensive income of an associate		—	—	—	—	—	38,289	—	38,289
Total comprehensive income/(loss) for the year		—	—	—	(146,596)	—	38,289	127,505	19,198
2016 final dividend		—	—	—	—	—	—	(18,611)	(18,611)
At 31 December 2017		93,053	907,280*	760,799*	90,364*	49,211*	(209,904)*	1,101,201*	2,792,004
Effect of adoption of HKFRS 9	2.2	—	—	—	(90,364)	—	—	90,364	—
At 1 January 2018 (restated)		**93,053**	**907,280**	**760,799**	**—**	**49,211**	**(209,904)**	**1,191,565**	**2,792,004**
Profit for the year		—	—	—	—	—	—	**109,180**	**109,180**
Other comprehensive income/(loss) for the year:									
Share of other comprehensive loss of an associate		—	—	—	—	—	**(20,957)**	—	**(20,957)**
Release of other reserves upon distribution in specie of shares in an associate	16	—	—	—	—	—	**230,861**	—	**230,861**
Total comprehensive income for the year		—	—	—	—	—	**209,904**	**109,180**	**319,084**
2017 final dividend	12	—	—	—	—	—	—	**(18,611)**	**(18,611)**
Transfer of contributed surplus to retained profits		—	—	**(716,158)**	—	—	—	**716,158**	—
Interim dividend by way of distribution in specie of shares in an associate	12	—	—	—	—	—	—	**(791,700)**	**(791,700)**
Interim dividend by way of distribution in specie of shares in a listed equity investment at fair value through profit or loss	12	—	—	—	—	—	—	**(668,398)**	**(668,398)**
At 31 December 2018		**93,053**	**907,280***	**44,641***	**—***	**49,211***	**—***	**538,194***	**1,632,379**

* These reserve accounts comprise the consolidated reserves of HK$1,539,326,000 (2017: HK$2,698,951,000) in the consolidated statement of financial position.

The asset revaluation reserve arose from changes in use from owner-occupied properties to investment properties carried at fair value in prior year.

The other reserves account comprises the Group's post-acquisition share of changes in net assets of an associate other than the Group's share of profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**90,366**	142,785
Adjustments for:			
Interest on bank borrowings	8	**440**	745
Share of profit of an associate		**(28,048)**	(18,696)
Interest income on bank deposits	5	**(264)**	(903)
Interest income on debt investments at amortised cost		**(447)**	—
Changes in fair value of investment properties	5	**(24,918)**	(29,994)
Fair value losses/(gains) on listed equity investments at fair value through profit or loss, net	5 & 6	**2,110**	(103,857)
Depreciation	7	**312**	603
Gain on distribution in specie of shares in an associate	7	**(139)**	—
Gain on distribution in specie of shares in a listed equity investment at fair value through profit or loss	7	**(6,072)**	—
Loss/(gain) on disposal of items of equipment	5	**3**	(10)
Gain on disposal of rights to subscribe shares of an available-for-sale investment	5	**—**	(2,432)
Impairment losses on loan receivables	7	**5,912**	—
		39,255	(11,759)
Decrease in listed equity investments at fair value through profit or loss		**104,903**	20,517
Decrease/(increase) in loan receivables		**55,000**	(171,000)
Increase in prepayments, deposits and other receivables		**(2,855)**	(2,007)
Decrease/(increase) in interest receivable from loan receivables		**4,600**	(6,047)
Increase/(decrease) in other payables and accruals		**1,741**	(20,305)
Net cash from/(used in) operations		**202,644**	(190,601)
Hong Kong profits tax paid		**(151)**	(25)
Net cash flows from/(used in) operating activities		**202,493**	(190,626)
CASH FLOWS FROM INVESTING ACTIVITIES			
Subscription for shares of an available-for-sale investment		**—**	(63,600)
Acquisitions of subsidiaries that are not businesses	27	**—**	(281,027)
Purchases of items of equipment	14	**(842)**	(447)
Additions to investment properties	15	**(1,782)**	(534)
Proceeds from disposal of rights to subscribe shares of an available-for-sale investment		**—**	2,432
Proceeds from disposal of items of equipment		**—**	203
Interest received from bank deposits		**261**	936
Cash dividend received from an associate		**2,730**	—
Purchase of debt investments at amortised cost	18	**(66,440)**	—
Net cash flows used in investing activities		**(66,073)**	(342,037)

Year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	**10,000**	—
Repayment of bank borrowings	**(17,500)**	(15,000)
Interest paid	**(443)**	(745)
Dividend paid	**(18,611)**	(18,611)
Transaction cost incurred for distribution in species to shareholders	**(4,178)**	—
Net cash flows used in financing activities	**(30,732)**	(34,356)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**105,688**	(567,019)
Cash and cash equivalents at beginning of year	**63,195**	630,214
CASH AND CASH EQUIVALENTS AT END OF YEAR	**168,883**	63,195
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**17,855**	16,238
Non-pledged time deposits with original maturity of less than three months when acquired	**151,028**	46,957
	168,883	63,195

1. CORPORATE AND GROUP INFORMATION

Yugang International Limited (the "**Company**") is a company incorporated in Bermuda with limited liability. The principal place of business of the Company is located at 25/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "**Group**") were involved in the following principal activities:

(i) treasury management;
(ii) money lending; and
(iii) property leasing.

Information about subsidiaries
Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation and business	Issued ordinary share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
August Estate Limited	British Virgin Islands/ Hong Kong	US$2	—	100	Property leasing
Bookman Properties Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Securities investment
Chase Create Investments Limited	Hong Kong	HK$2	—	100	Property leasing
Ferrex Holdings Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
First River Investments Limited	British Virgin Islands	US$1	—	100	Investment holding
Funrise Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
Joywell Holdings Limited	British Virgin Islands	US$1	—	100	Investment holding
Maxking Industries Limited	Hong Kong	HK$2	—	100	Motor vehicle leasing
Maxlord Enterprises Limited	Hong Kong	HK$2	—	100	Money lending
New Wealth Limited	Hong Kong	HK$2	—	100	Property leasing
Regulator Holdings Limited	British Virgin Islands	US$1	—	100	Investment holding
Sharp Light International Limited	Hong Kong	HK$1	—	100	Property leasing
Supreme Access International Limited	British Virgin Islands	US$2	—	100	Investment holding
Time Lander Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Property leasing
Top Eagle Holdings Limited	British Virgin Islands	US$1	—	100	Investment holding
Yugang Finance Limited	Hong Kong	HK$2	—	100	Provision of financial services
Yugang International (B.V.I.) Limited	British Virgin Islands	US$5	100	—	Investment holding
Yugang Management Limited	Hong Kong	HK$2	—	100	Corporate management

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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 Contract*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has recognised the transition adjustment against the applicable opening balances in equity as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Note	HKAS 39 measurement Category	HKAS 39 measurement Amount	Re-classification	HKFRS 9 measurement Amount	HKFRS 9 measurement Category
			HK$'000	*HK$'000*	*HK$'000*	
Financial assets						
Available-for-sale investment	(i)	AFS[1]	505,498	(505,498)	—	N/A
Loan receivables		L&R[2]	175,996	—	175,996	AC[3]
Financial assets included in prepayments, deposits and other receivables		L&R	13,730	—	13,730	AC
Listed equity investments at fair value through profit or loss	(i)	FVPL[4]	1,080,205	505,498	1,585,703	FVPL
Time deposits		L&R	46,957	—	46,957	AC
Cash and bank balances		L&R	16,238	—	16,238	AC
Total assets			1,838,624	—	1,838,624	
Financial liabilities						
Financial liabilities included in other payables and accruals		AC	11,850	—	11,850	AC
Bank borrowing		AC	7,500	—	7,500	AC
Total liabilities			19,350	—	19,350	

1 AFS: Available-for-sale investment
2 L&R: Loans and receivables
3 AC: Financial assets or financial liabilities at amortised cost
4 FVPL: Financial assets at fair value through profit or loss

Note:

(i) The Group has classified its listed equity investment previously classified as available-for-sale investment as listed equity investments measured at fair value through profit or loss as the Group had not irrevocably elected, at initial recognition or transition, to classify as fair value through other comprehensive income.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) Impairment

The Group has five types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Loan receivables;
- Financial assets included in prepayments, deposits and other receivables;
- Debt investments at amortised cost;
- Time deposits; and
- Cash and bank balances

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The restatement of the loss allowance for these classes of assets on transition to HKFRS 9 as a result of applying the expected credit risk model was immaterial. Therefore, the carrying amount for these classes of assets and the retained profits at 1 January 2018 have not been impacted by the initial application of HKFRS 9. Further details are disclosed in notes 3, 17, 18, 20, 21 and 34 to the financial statements.

While time deposits, and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(c) Hedge accounting

The requirements related to hedge accounting would better align the accounting treatments with risk management activities and enable entities to better reflect these activities in their financial statements. It relaxes the requirements for assessing hedge effectiveness which more risk management strategies may be eligible for hedge accounting. It also relaxes the rules on using non-derivative financial instruments as hedging instruments and allows greater flexibility on hedged items. Users of the financial statements will be provided with more relevant information about risk management and the effect of hedge accounting on the financial statements. The Group does not have any financial instruments related to hedge accounting throughout the year ended 31 December 2018 and year ended 31 December 2017.

(d) Impact on reserves and retained profits

As a result of the reclassification of the listed equity investments from available-for-sale investment to listed equity investments at fair value through profit or loss upon the adoption of HKFRS 9 as at 1 January 2018, the corresponding available-for-sale investment revaluation reserve was transferred to retained profits and thus there is no balance as at 31 December 2018.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below as follows:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives and* HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$2,694,000 and lease liabilities of HK$2,839,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investment in an associate.

Fair value measurement

The Group measures its investment properties and equity investments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets
Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties
A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(b) *(continued)*

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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

Equipment and depreciation

Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an item of equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land under finance leases	Over the lease terms
Buildings	2%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

Where parts of an item of equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation surplus or deficit dealt with as a movement in the asset revaluation reserve. On disposal of this investment property, the asset revaluation reserve realised in respect of previous valuation is transferred to retained profits as a movement in reserves.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rental receivables under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rental payables under the operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- 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.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) ***(continued)***

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) ***(continued)***

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as revenue in the statement of profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as revenue in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates, if and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) ***(continued)***

General approach (continued)

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) ***(continued)***

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of revenue. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and accruals and bank borrowing.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018) *(continued)*

Revenue from other sources

a) Rental income is recognised on a time proportion basis over the lease terms.

b) Dividend income is recognised when the shareholders' right to receive payment has been established.

c) Income from the sale of listed securities is recognised on the trade date.

d) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(d) dividend income, when the shareholders' right to receive payment has been established; and

(e) gain or loss on the disposal of listed securities, on the trade date.

Employee benefits

Retirement benefit scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Provision for expected credit losses on loan receivables and debt investment at amortised cost

The measurement of impairment losses under HKFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, such as risks of default, losses given default and collateral recovery, changes in which can result in different levels of allowances.

The Group's expected credit loss calculations on loan receivables and debt investments at amortised cost are based on assumptions about risk of default and losses given default. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on credit risks of the debtors or comparable companies in the market, existing market conditions as well as forward looking estimates (such as gross domestic product and market volatility) at the end of each reporting period. It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

At 31 December 2018, the carrying amount of the Group's loan receivables and debt investments at amortised cost amounted to HK$115,084,000 (2017: HK$175,996,000) and HK$66,769,000 (2017: nil), respectively. An impairment loss of HK$5,912,000 (2017: nil) has been recognised for the Group's loan receivables for the year ended 31 December 2018, and no specific impairment was made against the Group's debt investments at amortised cost as at 31 December 2018 and 31 December 2017. Further details, including the key assumptions and inputs used for impairment calculations, of the Group's loan receivables and debt investments at amortised cost and are set out in note 17 and note 18 to the financial statements, respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Estimation of fair value of investment properties

The fair values of the Group's investment properties are assessed by management based on the property valuation performed by independent professionally qualified valuers on an open market, existing use basis. The assumptions adopted in the property valuation are based on market conditions existing at each reporting date, with reference to comparable sales transactions and where appropriate, on the basis of capitalisation of the rental income and reversionary income potential.

Impairment of an available-for-sale financial asset

Before 1 January 2018, the Group classified an equity investment as available for sale and recognised movements of their fair values in equity. When the fair value declined, management made judgement about the decline in value to determine whether there was objective evidence that an impairment loss should be recognised in the statement of profit or loss. In making this judgement, management evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its original cost; and the financial health of and short term business outlook for the investee, including factors such as industry/sector performance, changes in operational and financing cash flows.

During the year ended 31 December 2017, no impairment was recognised in the statement of profit or loss for the Group's available-for-sale investment. Further details of the Group's available-for-sale investment are given in note 19 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable segments as follows:

(a) The treasury management segment which trades and holds debt and equity securities, earns interest and dividend income from the relevant securities investments and generates interest income from money lending activities.

(b) The property investment segment consists of investment through Y. T. Realty Group Limited ("**Y. T. Realty**"), an associate of the Group, in properties for rental income and/or capital appreciation potential. In November 2018, the Group completed a distribution in specie of the shares in Y. T. Realty, and following completion of the distribution in specie, Y. T. Realty ceased to be an associate of the Group.

(c) The property leasing segment consists of the leasing of properties directly owned by the Group for rental income and/or capital appreciation potential.

The management of the Company monitors the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Information regarding the Group's reportable segments is presented below:

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018

	Treasury management HK$'000	Property investment HK$'000	Property leasing HK$'000	Reportable segments total HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
Segment revenue:						
Revenue	54,671	43,771	11,287	109,729	(43,771)	65,958
Other income and gains	6,690	54,180	24,946	85,816	(54,180)	31,636
Total revenue and gains	61,361	97,951	36,233	195,545	(97,951)	97,594
Segment profit for the year	59,338	82,155	26,986	168,479	(54,107)	114,372
Corporate and unallocated expenses, net						(5,192)
Profit for the year						109,180

	Treasury management HK$'000	Property investment HK$'000	Property leasing HK$'000	Corporate and unallocated HK$'000	Consolidated HK$'000
Other segment information:					
Share of profit of an associate	—	28,048	—	—	28,048
Capital expenditure	—	—	—	842	842
Depreciation	—	—	78	234	312
Interest income	15,964	—	—	—	15,964
Interest expense	440	—	—	—	440

Year ended 31 December 2017

	Treasury management HK$'000	Property investment HK$'000	Property leasing HK$'000	Reportable segments total HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
Segment revenue:						
Revenue	26,197	45,273	8,096	79,566	(45,273)	34,293
Other income and gains	107,192	18,641	30,036	155,869	(18,641)	137,228
Total revenue and gains	133,389	63,914	38,132	235,435	(63,914)	171,521
Segment profit for the year	83,895	54,764	31,245	169,904	(36,068)	133,836
Corporate and unallocated expenses, net						(6,331)
Profit for the year						127,505

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2017

	Treasury management *HK$'000*	Property investment *HK$'000*	Property leasing *HK$'000*	Corporate and unallocated *HK$'000*	Consolidated *HK$'000*
Other segment information:					
Share of profit of an associate	—	18,696	—	—	18,696
Investment in an associate	—	554,278	—	—	554,278
Capital expenditure	—	—	340	107	447
Depreciation	—	—	49	554	603
Interest income	7,194	—	—	—	7,194
Interest expense	745	—	—	—	745

Note: The activities of the property investment segment was carried on through an associate of the Group and therefore, the entire revenue and gains of this reportable segment and its profit for the year not attributable to the Group are excluded to arrive at the Group's consolidated revenue and gains and consolidated profit for the year.

The Group's revenue is set out in note 5 to the financial statements.

The Group's revenue is derived solely from its operations in Hong Kong, and the non-current assets of the Group are located in Hong Kong.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue, other income and gains is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Revenue from other sources		
Interest income from loan receivables	**15,253**	6,291
Interest income from debt investments at amortised cost	**447**	—
	15,700	6,291
Other revenue:		
Gains/(losses) on disposal of listed equity investments at fair value through profit or loss, net *(note)*	**10,624**	(3,922)
Dividend income from listed equity investments at fair value through profit or loss	**28,347**	23,828
Gross rental income	**11,287**	8,096
	50,258	28,002
	65,958	34,293
Other income and gains		
Interest income on bank deposits	**264**	903
Fair value gains on listed equity investments at fair value through profit or loss, net	**—**	103,857
Gain on disposal of rights to subscribe shares of an available-for-sale investment	**—**	2,432
Gain on disposal of items of equipment	**—**	10
Gain on distribution in specie of shares in an associate	**139**	—
Gain on distribution in specie of shares in a listed equity investment at fair value through profit or loss	**6,072**	—
Fair value gains on investment properties *(note 15)*	**24,918**	29,994
Others	**243**	32
	31,636	137,228

Note: The gross proceeds from the sale of listed equity investments at fair value through profit or loss for the year were approximately HK$119,546,000 (2017: HK$20,378,000).

6. OTHER EXPENSES

	2018 HK$'000	2017 HK$'000
Fair value losses on listed equity investments at fair value through profit or loss, net	**2,110**	—

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018 HK$'000	2017 HK$'000
Depreciation *(note 14)*	**312**	603
Minimum lease payments under operating leases	**1,135**	1,590
Auditor's remuneration	**1,648**	1,500
Staff costs (including directors' remuneration *(note 9)*):		
Wages and salaries	**15,761**	33,523
Pension scheme contributions	**298**	571
	16,059	34,094
Impairment losses on loan receivables	**5,912**	—
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties	**640**	541
Gain on distribution in specie of shares in a listed equity investment at fair value through profit or loss *	**(6,072)**	—
Gain on distribution in specie of shares in an associate *	**(139)**	—
Foreign exchange differences, net	**(118)**	(32)

* The item is included in "Other income and gains" in the consolidated statement of profit or loss.

8. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings	**440**	745

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") issued by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Fees	**2,150**	2,100
Other emoluments:		
Salaries, allowances and benefits in kind	**5,737**	10,332
Discretionary bonuses	**3,600**	3,600
Pension scheme contributions	**38**	54
	9,375	13,986
	11,525	16,086

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Mr. Luk Yu King, James	**500**	480
Mr. Ng Kwok Fu	**275**	260
Mr. Leung Yu Ming, Steven	**275**	260
	1,050	1,000

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors and a non-executive director

	Fees ***HK$'000***	**Salaries, allowances and benefits in kind** ***HK$'000***	**Discretionary bonuses** ***HK$'000***	**Pension scheme contributions** ***HK$'000***	**Total remuneration** ***HK$'000***
2018					
Executive directors:					
Mr. Cheung Chung Kiu	**—**	**—**	**—**	**—**	**—**
Mr. Yuen Wing Shing	**—**	**—**	**1,500**	**2**	**1,502**
Mr. Lam Hiu Lo	**—**	**2,174**	**1,350**	**18**	**3,542**
Mr. Zhang Qing Xin	**—**	**2,008**	**—**	**—**	**2,008**
Mr. Liang Kang	**—**	**1,555**	**750**	**18**	**2,323**
	—	**5,737**	**3,600**	**38**	**9,375**
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	**1,100**	**—**	**—**	**—**	**1,100**
	1,100	**5,737**	**3,600**	**38**	**10,475**

9. DIRECTORS' REMUNERATION *(continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017					
Executive directors:					
Mr. Cheung Chung Kiu	—	2,500	—	8	2,508
Mr. Yuen Wing Shing	—	2,380	1,500	10	3,890
Mr. Lam Hiu Lo	—	2,046	1,350	18	3,414
Mr. Zhang Qing Xin	—	1,916	—	—	1,916
Mr. Liang Kang	—	1,490	750	18	2,258
	—	10,332	3,600	54	13,986
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	1,100	—	—	—	1,100
	1,100	10,332	3,600	54	15,086

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2017: five) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one non-director, highest paid employee for the current year are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries, allowances and benefits in kind	**1,072**	—
Discretionary bonuses	**560**	—
Pension scheme contributions	**18**	—
	1,650	—

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
HK$1,500,001 to HK$2,000,000	**1**	—

11. INCOME TAX

	2018 HK$'000	2017 HK$'000
Current:		
Charge for the year	**19**	80
Overprovision in prior years	**(30)**	(20)
	(11)	60
Deferred *(note 24)*	**(18,803)**	15,220
Total tax charge/(credit) for the year	**(18,814)**	15,280

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2018 HK$'000	2017 HK$'000
Profit before tax	**90,366**	142,785
Tax at the statutory tax rate	**14,910**	23,559
Profit attributable to an associate	**(4,628)**	(3,085)
Income not subject to tax	**(17,920)**	(9,438)
Additional income subject to tax	**38**	15
Expenses not deductible for tax	**2,030**	737
Tax losses not recognised	**7,088**	3,512
Tax losses utilised from previous years	**(1,040)**	(190)
Reversal of deferred tax upon distribution in specie of a listed equity investment	**(19,067)**	—
Others	**(225)**	170
Tax (credit)/charge at the Group's effective rate	**(18,814)**	15,280

The share of tax attributable to an associate amounting to HK$1,018,000 (2017: HK$322,000) is included in "Share of profit of an associate" in the consolidated statement of profit or loss.

12. DIVIDEND

	2018 HK$'000	2017 HK$'000
Proposed final dividend – Nil (2017: HK$0.002) per ordinary share	—	18,611
Interim dividends by way of distribution in specie (2017: Nil)	**1,460,098**	—
	1,460,098	18,611

The Board has resolved not to recommend the payment of final dividend for the year ended 31 December 2018 (2017: HK$0.002 per share). No interim dividend in the form of cash was declared for the financial year of 2018 and 2017.

12. DIVIDEND *(continued)*

On 24 August 2018, the Board of directors declared the payment of an interim dividend by way of a distribution in specie of 51,179,018 shares of The Cross-Harbour (Holdings) Limited ("**CHH**"), a listed equity investment at fair value through profit or loss held by the Group to the qualifying shareholders in proportion to their respective shareholdings in the Company on the basis of 11 CHH shares for every 2,000 Company shares held by shareholders whose names appeared on the register of members of the Company on 11 September 2018 (the "**Distribution in Specie of CHH**"). Out of the total of 53,009,708 shares of CHH, 51,179,018 shares of CHH with fair value amounted to approximately HK$668,398,000 were distributed, and the remaining 1,830,690 undistributed shares of CHH with fair value amounted to approximately HK$21,309,000 were carried as listed equity investments at fair value through profit or loss as at 31 December 2018. The Distribution in Specie of CHH was completed on 19 September 2018.

On 30 October 2018, the Board declared the payment of an interim dividend by way of a distribution in specie of approximately 34.14% of the issued capital of its associate, Y. T. Realty, to the qualifying shareholders in proportion to their respective shareholdings in the Company on the basis of 44 Y. T. Realty shares for every 1,500 Company shares held by shareholders whose names appeared on the register of members of the Company on 15 November 2018 (the "**Distribution in Specie of Y. T. Realty**"). A total of 273,000,000 shares of Y. T. Realty held by the Group with fair value amounted to approximately HK$791,700,000 were distributed. The Distribution in Specie of Y. T. Realty was completed on 23 November 2018.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 and 2017 as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	**109,180**	127,505

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**9,305,276,756**	9,305,276,756

14. EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2018					
At 31 December 2017 and 1 January 2018:					
Cost	**2,074**	**4,561**	**3,041**	**5,087**	**14,763**
Accumulated depreciation	**(2,030)**	**(4,257)**	**(2,855)**	**(4,986)**	**(14,128)**
Net carrying amount	**44**	**304**	**186**	**101**	**635**
At 1 January 2018, net of accumulated depreciation	**44**	**304**	**186**	**101**	**635**
Additions	**585**	**257**	**—**	**—**	**842**
Write off	**—**	**(3)**	**—**	**—**	**(3)**
Depreciation provided during the year	**(59)**	**(78)**	**(74)**	**(101)**	**(312)**
At 31 December 2018, net of accumulated depreciation	**570**	**480**	**112**	**—**	**1,162**
At 31 December 2018:					
Cost	**690**	**674**	**432**	**3,768**	**5,564**
Accumulated depreciation	**(120)**	**(194)**	**(320)**	**(3,768)**	**(4,402)**
Net carrying amount	**570**	**480**	**112**	**—**	**1,162**
31 December 2017					
At 1 January 2017:					
Cost	1,969	4,179	2,937	10,861	19,946
Accumulated depreciation	(1,969)	(4,175)	(2,781)	(10,087)	(19,012)
Net carrying amount	—	4	156	774	934
At 1 January 2017, net of accumulated depreciation	—	4	156	774	934
Additions	—	343	104	—	447
Disposal	—	—	—	(193)	(193)
Acquisition of a subsidiary *(note 27)*	50	—	—	—	50
Depreciation provided during the year	(6)	(43)	(74)	(480)	(603)
At 31 December 2017, net of accumulated depreciation	44	304	186	101	635
At 31 December 2017:					
Cost	2,074	4,561	3,041	5,087	14,763
Accumulated depreciation	(2,030)	(4,257)	(2,855)	(4,986)	(14,128)
Net carrying amount	44	304	186	101	635

15. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**437,300**	125,600
Acquisitions of subsidiaries that are not businesses including the direct transaction costs *(note 27)*	**—**	281,172
Additions	**1,782**	534
Gain from a fair value adjustment *(note 5)*	**24,918**	29,994
Carrying amount at 31 December	**464,000**	437,300

The Group's investment properties as at 31 December 2018 consist of two commercial properties (2017: two), three (2017: three) industrial properties and four (2017: four) residential properties in Hong Kong. The directors of the Company have determined that the investment properties consist of three classes of asset, i.e., commercial, industrial and residential, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2018 based on valuations performed by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at HK$464,000,000. Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 29(a) to the financial statements.

At 31 December 2018, the Group's investment properties with an aggregate carrying value of HK$130,300,000 (2017: HK$121,200,000) were pledged to banks to secure banking facilities granted to the Group *(note 31(a))*.

Fair value hierarchy
The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) *HK$'000*	**Significant observable inputs (Level 2) *HK$'000***	**Significant unobservable inputs (Level 3) *HK$'000***	**Total *HK$'000***
Recurring fair value measurement for:				
Commercial properties	—	—	**315,000**	**315,000**
Industrial properties	—	**58,000**	—	**58,000**
Residential properties	—	**91,000**	—	**91,000**
	—	**149,000**	**315,000**	**464,000**

15. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy (continued)

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement for:				
Commercial properties	—	—	298,000	298,000
Industrial properties	—	51,200	—	51,200
Residential properties	—	88,100	—	88,100
	—	139,300	298,000	437,300

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

Reconciliation of fair value measurement categorised within Level 3 of the fair value hierarchy:

	Commercial properties
	HK$'000
Carrying amount at 31 December 2017 and 1 January 2018	298,000
Additions	1,782
Fair value gains on investment properties	15,218
Carrying amount at 31 December 2018	315,000

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties classified as Level 3 of the fair value hierarchy:

	Valuation techniques	**Significant observable inputs**	**Weighted average**
Commercial properties	Income capitalisation approach	Market rental (per square feet)	HK$43 (2017: HK$42) per month
		Market yields	2.65% (2017: 2.65%)
	Direct comparison approach	Price (per square feet)	HK$20,100 (2017: HK$18,300)

Under the income capitalisation approach, fair value is based on capitalisation of rental income and reversionary income potential. Measurement of the fair value is positively correlated to the market rental and inversely correlated to market yields.

Under the direct comparison approach, fair value is determined by reference to comparable market transactions and adjusted for differences on location, physical and transaction attributes and is positively correlated to the estimated price.

16. INVESTMENT IN AN ASSOCIATE

	2018	2017
	HK$'000	*HK$'000*
Carrying amount	—	554,278
Market value of listed shares	—	682,500

Particulars of the associate are as follows:

Name	**Particulars of issued shares held**	**Place of incorporation and business**	**Percentage of ownership interest attributable to the Group**	
			2018	2017
Y. T. Realty Group Limited	Ordinary shares	Bermuda/ Hong Kong	—	34.14

Y. T. Realty is an investment holding company, incorporated in Bermuda and listed in Hong Kong, with its subsidiaries principally engaged in property investment and property trading. This associate had been accounted for using the equity method in these consolidated financial statements.

Following the completion of the Distribution in Specie of Y. T. Realty as set out in note 12, Y. T. Realty ceased to be an associate of the Company. Accordingly, the relevant interest in associate has been derecognised.

In the opinion of the directors, Y. T. Realty is no longer an associate of the Group for the year ended 31 December 2018 and therefore, summarised financial information for Y. T. Realty for the year ended 31 December 2018 is not presented in these consolidated financial statements.

Extracts of the consolidated results and consolidated financial position of Y. T. Realty are as follows:

	2017
	HK$'000
Consolidated results	
Revenue	45,273
Other income	2,788
Total expenses	(8,207)
Changes in fair value of investment properties	15,853
Income tax expense	(943)
Profit attributable to shareholders	54,764
Other comprehensive income	112,151
Total comprehensive income	166,915

16. INVESTMENT IN AN ASSOCIATE *(continued)*

	2017
	HK$'000
Consolidated financial position	
Non-current assets	
Investment properties	1,216,548
Other non-current assets	18,780
	1,235,328
Current assets	417,327
Current liabilities	(21,648)
Non-current liabilities	(7,462)
Net assets	1,623,545
Reconciliation to the Group's interest in Y. T. Realty:	
Proportion of the Group's ownership	34.14%
Group's share of net assets of Y. T. Realty and carrying amount of the investment in Y. T. Realty	554,278

17. LOAN RECEIVABLES

	Note	**2018**	2017
		HK$'000	*HK$'000*
Unsecured	(ii)	**120,996**	175,996
Less: Impairment losses on loan receivables		**(5,912)**	—
		115,084	175,996
Current portion		**21,000**	173,000
Non-current portion		**94,084**	2,996
		115,084	175,996

Notes:

(i) Loan receivables represent receivables arising from the Group's money lending business and are stated at amortised cost.

(ii) The unsecured loan receivables are related to three new customers and one existing customer. All new receivables totalling HK$118,000,000 are interest-bearing at 12%-17% per annum and repayable in March 2019 and December 2020. For the brought forward loan receivables of HK$2,996,000 from an existing customer, the balance is stated at amortised cost at an effective interest rate equivalent to Hong Kong dollar prime rate per annum and repayable by an equal amount of the annual instalment over the remaining term of three (2017: four) years. As the Group's loan receivables are related to a number of different borrowers, the directors are of the opinion that there was no significant concentration of credit risk over these loans.

17. LOAN RECEIVABLES *(continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018

As at 31 December 2018, none of the loans and interest receivables were overdue (2017: Nil) and all the balances were categorised within Stage 1 for the measurement of expected credit losses. An impairment analysis is performed at each reporting date by considering the expected credit losses, which are estimated by applying the probability of default approach with reference to the risks of default of the borrowers or comparable companies. As at 31 December 2018, the weighted average probability of default applied was approximately 12.2% and the loss given default was estimated to be approximately 37.7%.

Impairment under HKAS 39 for the year ended 31 December 2017

At 31 December 2017, all the loans and interest receivables were not past due, and not individually nor collectively considered to be impaired, and related to a number of independent loan borrowers for whom there was no recent history of default. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

18. DEBT INVESTMENTS AT AMORTISED COST

	2018	2017
	HK$'000	*HK$'000*
Debt investments at amortised cost	**66,769**	—

In December 2018, the Group acquired on the market senior notes at an aggregate consideration of US$4,680,000 (equivalent to HK$36,655,000) issued by a company ("**Issuer A**") listed on the Stock Exchange. The senior notes bear interest at 7.9% and 8.5% per annum, payable semi-annually and will mature in June 2021 and 2022, respectively. Issuer A may redeem all or any part of the senior notes prior to the maturity at redemption prices applicable from time to time.

In December 2018, the Group acquired on the market another senior notes at an aggregate consideration of US$3,802,000 (equivalent to HK$29,785,000) issued by another company ("**Issuer B**") listed on the Stock Exchange. The senior notes bear interest at 8.4% per annum, payable semi-annually and will mature in March 2021. Issuer B may redeem all or any part of the senior notes prior to the maturity at redemption prices applicable from time to time.

Impairment under HKFRS 9 for the year ended 31 December 2018

As at 31 December 2018, none of the debt investments were overdue and all the debt investments were categorised within Stage 1 for the measurement of expected credit losses. An impairment analysis is performed at each reporting date by considering the expected credit losses, which are estimated by applying the probability of default approach with reference to risk of default of the Issuers or comparable companies. As at 31 December 2018, the director considered that the weighted average probability of default applied was minimal and therefore no provision of impairment is necessary as at 31 December 2018.

19. LISTED EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE INVESTMENT

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Listed equity investments, at market value	(i)	**818,481**	1,080,205
Available-for-sale investment			
Listed equity investments at fair value	(ii)	—	505,498
		818,481	1,585,703

19. LISTED EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE INVESTMENT *(continued)*

(i) The market value of the Group's listed equity investments at fair value through profit or loss at the date of approval of these financial statements was approximately HK$823,249,000.

Particulars of the investments that exceeded 10% of the Group's total assets at the end of the reporting period are as follows:

Name	Place of incorporation	Issued and paid-up share capital	Percentage of ownership interest attributable to the Group	
			2018	2017
The Cross-Harbour (Holdings) Limited	Hong Kong	HK$1,629,461,000	**N/A***	14.22
C C Land Holdings Limited	Bermuda	HK$388,233,000	**7.53**	7.53

Assuming the portfolio of the Group's listed equity investments remained unchanged, the market value of the Group's equity investments at fair value through profit or loss at the date of approval of these financial statements was HK$525,952,000.

* CHH ceased to be an investment that exceed 10% of the Group's total assets with effect from 19 September 2018 upon the completion of the Distribution in Specie of CHH.

(ii) During the year ended 31 December 2017, the gross loss in respect of the Group's available-for-sale investment recognised in other comprehensive loss amounted to HK$146,596,000.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Prepayments	**4,686**	4,828
Deposits	**1,525**	1,776
Other receivables	**5,895**	7,126
	12,106	13,730
Less: non-current portion	**(3,787)**	(4,028)
Current portion	**8,319**	9,702

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods from one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

22. OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Other payables	**704**	404
Accruals	**10,424**	9,224
Rental deposits received	**2,443**	2,222
	13,571	11,850
Less: non-current portion	**(2,477)**	(2,196)
Current portion	**11,094**	9,654

Other payables are non-interest-bearing and repayable on demand.

23. BANK BORROWING

	2018			2017		
	Effective interest rate (%)	**Maturity**	***HK$'000***	Effective interest rate (%)	Maturity	*HK$'000*
Current						
Bank borrowing – secured	—	—	—	3.12	March & June 2018	7,500
Analysed into:						
Bank borrowing repayable:						
Within one year or on demand			—			7,500
			—			7,500

As at 31 December 2017, the bank borrowing was denominated in Hong Kong dollars and secured by one of the Group's investment properties with a carrying value of HK$16,200,000.

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Unrealised fair value gain arising from listed equity investments at fair value through profit or loss *HK$'000*	Depreciation allowance in excess of related depreciation *HK$'000*	Total *HK$'000*
Gross deferred tax liabilities at 1 January 2017	5,451	510	5,961
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 11)*	14,855	447	15,302
Gross deferred tax liabilities at 31 December 2017 and 1 January 2018	20,306	957	21,263
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 11)*	(19,106)	416	(18,690)
Gross deferred tax liabilities at 31 December 2018	1,200	1,373	2,573

Deferred tax assets

	Losses available for offsetting against future taxable profits *HK$'000*
Gross deferred tax assets at 1 January 2017	1,483
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 11)*	82
Gross deferred tax assets at 31 December 2017 and 1 January 2018	1,565
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 11)*	113
Gross deferred tax assets at 31 December 2018	1,678

24. DEFERRED TAX *(continued)*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018	2017
	HK$'000	*HK$'000*
Net deferred tax liabilities recognised in the consolidated statement of financial position	**895**	19,698

The Group has tax losses arising in Hong Kong of HK$1,201,700,000 (2017: HK$1,165,025,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

Shares

	2018	2017
	HK$'000	*HK$'000*
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
9,305,276,756 ordinary shares of HK$0.01 each	**93,053**	93,053

Share options

The Company's share option scheme which was adopted on 29 April 2005 (the "**Old Scheme**") expired on 28 April 2015. The Company did not have any outstanding options granted or remained valid under the Old Scheme. On 21 May 2015, the Company adopted a new share option scheme (the "**New Scheme**"). The purpose of the New Scheme is to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the employees and to serve such other purposes as the directors may approve from time to time.

Employees (including directors) of the Group are included in the eligible participants under the New Scheme. A total of 930,527,675 shares will be available for issue under the New Scheme, which represent 10% of the Company's issued share capital at the end of the reporting period. Each participant cannot be entitled to more than 1% of the total number of shares in issue in any 12-month period. The option shall end, in any event, not later than 10 years from the date of grant of the option subject to the provision for early termination set out in the New Scheme. The New Scheme remains in force until 20 May 2025. No option has been granted under the New Scheme since the adoption of the New Scheme.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

27. ACQUISITIONS OF SUBSIDIARIES THAT ARE NOT BUSINESSES

On 14 March 2017, the Group entered into a sale and purchase agreement with an independent third party to acquire all the issued shares of Supreme Access International Limited ("**Supreme Access**") and its sole subsidiary, Sharp Light International Limited, (collectively "**Supreme Access Group**") together with the shareholder's loan owed by Supreme Access Group to its then shareholder, at the cash consideration of HK$136,100,000. On the same day, the Group entered into another sale and purchase agreement with an independent third party to acquire all the issued shares of August Estate Limited ("**August Estate**") at the cash consideration of HK$144,600,000.

Supreme Access Group and August Estate are principally engaged in property investment in Hong Kong. Up to the date of the acquisitions, Supreme Access Group and August Estate did not carry out any significant business transaction except for each holding and renting out a property in Hong Kong.

The above acquisitions are accounted for by the Group as acquisitions of assets as the entities acquired by the Group do not constitute businesses.

The net assets acquired by the Group in the above transactions are as follows:

	Supreme Access Group	**August Estate**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Investment properties *(note 15)*	136,746	144,097	280,843
Leasehold improvements *(note 14)*	50	—	50
Prepayments, deposits and other receivables	252	1,176	1,428
Bank balances	1	1	2
Other payables and accruals	(839)	(674)	(1,513)
Tax payable	(110)	—	(110)
	136,100	144,600	280,700
Satisfied by cash	136,100	144,600	280,700

The Group incurred transaction costs of HK$329,000 for these acquisitions. These transaction costs have been capitalised and are included in the initial acquisition cost of investment properties in the consolidated statement of financial position.

27. ACQUISITIONS OF SUBSIDIARIES THAT ARE NOT BUSINESSES *(continued)*

An analysis of cash flows in respect of the acquisitions of Supreme Access Group and August Estate are as follows:

	Supreme Access Group	August Estate	Total
	HK$'000	*HK$'000*	*HK$'000*
Cash consideration	(136,100)	(144,600)	(280,700)
Transaction costs directly attributable to the acquisitions *(note 15)*	(164)	(165)	(329)
Bank balances acquired	1	1	2
Net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries included in cash flows from investing activities	(136,263)	(144,764)	(281,027)

28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions:

During the year, the Group paid interim dividends in the form of the Distribution in Specie of CHH and the Distribution in Specie of Y.T. Realty. Details of the interim dividends are set out in note 12 to these financial statements.

(b) Changes in liabilities arising from financing activities

	Bank borrowing	Dividend payable
	HK$'000	*HK$'000*
At 1 January 2018	7,500	—
2017 final dividends payable	—	18,611
Changes from financing cash flows	(7,500)	(18,611)
Interest expense	443	—
Interest paid	(443)	—
At 31 December 2018	—	—

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from two years to three years (2017: two years to three years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**9,137**	11,156
In the second to fifth years, inclusive	**8,091**	3,123
	17,228	14,279

29. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its office properties and car parks under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one year to four years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**960**	1,823
In the second to fifth years, inclusive	**2,099**	1,038
	3,059	2,861

30. COMMITMENTS

At the end of the reporting period, the Group did not have any significant commitments (2017: Nil).

31. BANKING FACILITIES

At the end of the reporting period, the Group's banking facilities were secured by:

(a) pledges of certain of the Group's investment properties with an aggregate carrying value of HK$130,300,000 (2017: HK$121,200,000); and

(b) corporate guarantees issued by the Company.

32. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2018	2017
	HK$'000	*HK$'000*
Short term employee benefits	**9,337**	13,932
Post-employment benefits	**38**	54
Total compensation paid to key management personnel	**9,375**	13,986

Further details of directors' emoluments are included in note 9 to these financial statements.

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, time deposits, financial assets included in prepayments, deposits and other receivables, the current portion of loan receivables, financial liabilities included in other payables and accruals, and the current portion of bank borrowing approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The fair values of the non-current portion of deposit, loan receivables, other payables and a bank borrowing have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturity. The Group's own non-performance risk for the other payables and bank borrowing as at 31 December 2018 and 2017 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable input (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
As at 31 December 2018				
Listed equity investments at fair value through profit or loss	**818,481**	**—**	**—**	**818,481**
	818,481	**—**	**—**	**818,481**
As at 31 December 2017				
Available-for-sale investment	505,498	—	—	505,498
Listed equity investments at fair value through profit or loss	1,080,205	—	—	1,080,205
	1,585,703	—	—	1,585,703

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 (2017: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include equity investments, loan receivables, bank borrowings, time deposits and cash and bank balances. Details of the major financial instruments and the Group's accounting policies in relation to them are disclosed in note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, equity price risk and liquidity risk. The policies for managing each of these risks are summarised below.

Interest rate risk

The Group does not have any significant exposure to the risk of changes in market interest rates, and therefore it does not use derivative financial instruments to hedge its debt obligations and receivables.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk *(continued)*

The Group received interest income principally from its portfolio of loan receivables and short term bank deposits. The aggregate carrying amount of these financial assets with floating interest rates was approximately HK$172 million (2017: HK$67 million) as at 31 December 2018. Assuming that the balances have been held at a constant level and there has been an average increase in the interest rate of 25 (2017: 25) basis points for the year ended 31 December 2018, the interest income of the Group would have increased by HK$0.4 million (2017: HK$0.2 million).

The Group incurs interest expense principally from its bank borrowings with floating interest rates. Assuming that bank borrowings outstanding as at the end of the reporting period have been outstanding for the whole year, with all other variables held constant, a 25 (2017: 25) basis point increase in interest rates at 31 December 2018 would have increased the interest expense of the Group by nil (2017: HK$0.02 million).

Foreign currency risk

The Group has limited foreign currency risk as the Group carried out most of the transactions in the Group's functional currency — Hong Kong dollar and the Group's assets and liabilities are denominated in Hong Kong dollar. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade and other receivables are monitored on an ongoing basis to ensure follow-up action is taken to recover overdue debts and the Group's exposure to bad debts is not significant. The Group reviews the recoverable amount of each individual debtor at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has established a credit committee (the "**Committee**") to manage the credit risk with respect to the loan receivables of the Group. The Committee reviews the credit standing and assesses credit risk exposures of each borrower. In order to mitigate this risk, the Group has formulated a credit policy governing the control of credit risk, including the requirement for collateral, if necessary. In this regard, the directors consider that the credit risk is significantly reduced and controlled.

Maximum exposure as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs
	Stage 1
	HK$'000
Debt investments at amortised cost	66,769
Loan receivables	115,084
Financial assets included in prepayments, deposits and other receivables*	12,106
Time deposits	151,028
Cash and bank balances	17,855
	362,842

* The credit quality of the financial assets included in deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk ***(continued)***

Maximum exposure as at 31 December 2017

The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the statement of financial position. The Group does not provide any guarantees which would expose the Group to credit risk in current and prior years.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from equity investments at fair value through profit or loss and available-for-sale investment as at the end of the reporting period. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices as at the end of the reporting period.

The market equity index for the Stock Exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its highest and lowest points during the year were as follows:

	31 December 2018	**High/low 2018**	31 December 2017	High/low 2017
Hong Kong — Hang Seng Index	**25,845**	**33,154/ 24,585**	29,919	30,200/ 21,884

The following table demonstrates the sensitivity to change in the fair values of the equity investments, with all the other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

For the year ended 31 December 2017, this impact of the available-for-sale investment was deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact on the consolidated statement of profit or loss.

The sensitivity analysis is made based on a 10% increase in Hang Seng Index of Hong Kong (2017: increase of 10%) anticipated as at the end of the reporting period and an estimated value of beta of the investment portfolios of the Group.

	Carrying amount of listed equity investments ***HK$'000***	**Increase/ (decrease) in profit before tax** ***HK$'000***	**Increase in other components of equity** ***HK$'000***
2018			
Listed equity investments at fair value through profit or loss	**818,481**	**19,560**	**—**
2017			
Listed equity investments at fair value through profit or loss	1,080,205	(29,671)	—
Available-for-sale investment	505,498	—	6,777
Total		(29,671)	6,777

The Group's management manages the above exposure by maintaining a well-diversified portfolio with different risk profiles.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, was as follows:

	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 5 years *HK$'000*	Total *HK$'000*
As at 31 December 2018					
Other payables and accruals	**10,454**	**640**	**—**	**2,477**	**13,571**
As at 31 December 2017					
Other payables and accruals	9,036	—	618	2,196	11,850
Bank borrowing	—	3,775	3,799	—	7,574
	9,036	3,775	4,417	2,196	19,424

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to equity holders of the Company. Net debt includes bank borrowings, other payables and accruals, less time deposits and cash and bank balances. The gearing ratios as at the end of the reporting periods were as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Bank borrowings	**—**	7,500
Other payables and accruals	**13,571**	11,850
Less: Time deposits and cash and bank balances	**(168,883)**	(63,195)
Net cash	**(155,312)**	(43,845)
Equity attributable to equity holders of the Company	**1,632,379**	2,792,004
Gearing ratio	**N/A**	N/A

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSET			
Investment in a subsidiary	(a)	**1,010,805**	1,933,984
CURRENT ASSETS			
Prepayments		**791**	786
Cash and bank balances		**1,708**	1,579
Total current assets		**2,499**	2,365
CURRENT LIABILITIES			
Other payables and accruals		**2,660**	2,414
NET CURRENT LIABILITIES		**(161)**	(49)
Net assets		**1,010,644**	1,933,935
EQUITY			
Issued capital		**93,053**	93,053
Reserves	(b)	**917,591**	1,840,882
Total equity		**1,010,644**	1,933,935

Notes:

(a) Investment in a subsidiary

Information about the investment in a subsidiary of the Company at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
Unlisted shares, at cost	**105,759**	105,759
Amount due from a subsidiary	**905,046**	1,828,225
	1,010,805	1,933,984

The amount due from a subsidiary included in the investment in a subsidiary above is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Company's directors, the advance is considered as quasi-equity loan to the subsidiary.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Notes: (continued)

(b) Reserves

Information about the reserves of the Company at the end of the reporting year is as follows:

	Share premium account *HK$'000*	**Contributed surplus** *HK$'000*	**Retained profits** *HK$'000*	**Total equity** *HK$'000*
At 1 January 2017	907,280	839,108	37,993	1,784,381
Total comprehensive income for the year	—	—	75,112	75,112
2016 final dividend	—	—	(18,611)	(18,611)
At 31 December 2017 and 1 January 2018	907,280	839,108	94,494	1,840,882
Transfer of contributed surplus to retained profits	—	(839,108)	839,108	—
Interim dividend by way of distribution in specie of shares in an associate	—	—	(791,700)	(791,700)
Interim dividend by way of distribution in specie of shares in a listed equity investments at fair value through profit or loss	—	—	(668,398)	(668,398)
Total comprehensive income for the year	—	—	555,418	555,418
2017 final dividend	—	—	(18,611)	(18,611)
At 31 December 2018	907,280	—	10,311	917,591

The contributed surplus of the Company originally represented the excess of the net asset values of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisitions at the time of the reorganisation in preparation for the listing of the Company's shares in 1993. Under the Bermuda Companies Act 1981 (as amended from time to time), the contributed surplus may be distributed to shareholders under certain circumstances.

36. EVENTS AFTER REPORTING PERIOD

On 16 January 2019, the Company was informed by Chongqing Industrial Limited, Timmex Investment Limited and Mr. Cheung Chung Kiu, the controlling Shareholders of the Company, collectively referred to as (the "**Vendors**") that they entered into the sale and purchase agreement with Future Capital Group Limited (the "**Offeror**"), pursuant to which the Vendors agreed to sell and the Offeror agreed to purchase in aggregate of 4,099,709,732 sale shares of the Company ("**Sale Shares**") which represented approximately 44.06% of the entire issued share capital of the Company as at 16 January 2019 for a cash consideration of HK$0.175 per Sale Share. The Offeror was required to make a conditional mandatory general offer under The Codes on Takeovers and Mergers and Share Buy-backs. Detailed information was contained in the announcements of the Company published on 23 January, 28 January, 13 February, 28 February and 28 March, 2019 and the circulars of the Company despatched on 28 March 2019 respectively.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2019.

Particulars of Properties

31 December 2018

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
Workshop Nos. 1, 2 and 7 on 4/F, Kodak House II, 39 Healthy Street East, North Point, Hong Kong	Industrial	Long-term	100%
Flat No. 16 on 18/F, Flat No. 18 on 37/F, Flat No. 17 on 39/F and Flat No. 11 on 42/F, Apartment Tower on the Western Side, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	Residential	Medium-term	100%
1/F and 11/F China United Centre, No. 28 Marble Road, North Point, Hong Kong	Commercial	Long-term	100%

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**65,958**	34,293	30,114	34,957	83,504
PROFIT BEFORE TAX	**90,366**	142,785	26,034	161,861	295,567
Income tax credit/(expense)	**18,814**	(15,280)	(4,186)	(32)	(20)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**109,180**	127,505	21,848	161,829	295,547

ASSETS AND LIABILITIES

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**1,646,845**	2,831,197	2,849,037	3,168,114	2,709,801
TOTAL LIABILITIES	**(14,466)**	(39,193)	(57,620)	(91,538)	(70,029)
	1,632,379	2,792,004	2,791,417	3,076,576	2,639,772

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