圓通國際

YTO Express (International) Holdings Limited
圓通速遞（國際）控股有限公司

Incorporated in the Cayman Islands with limited liability
Stock Code: 6123

2018 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Lam Chun Chin, Spencer *(Chief Executive Officer)*
Mr. Li Xianjun

NON-EXECUTIVE DIRECTORS
Mr. Yu Huijiao *(Chairman)*
Mr. Su Xiufeng
Mr. Zhu Rui
Mr. Lin Kai

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Li Donghui
Mr. Xu Junmin
Mr. Chung Kwok Mo John

COMPANY SECRETARY
Ms. Wong Pui Wah,
HKICPA (non-practising), FCCA

AUTHORISED REPRESENTATIVES
(for the purpose of the Listing Rules)
Mr. Lam Chun Chin, Spencer
Ms. Wong Pui Wah

AUTHORISED REPRESENTATIVE
(for the purpose of the Companies Ordinance)
Ms. Wong Pui Wah

AUDIT COMMITTEE
Mr. Chung Kwok Mo John *(Chairman)*
Mr. Lin Kai
Mr. Li Donghui

REMUNERATION COMMITTEE
Mr. Xu Junmin *(Chairman)*
Mr. Yu Huijiao
Mr. Chung Kwok Mo John

NOMINATION COMMITTEE
Mr. Yu Huijiao *(Chairman)*
Mr. Li Donghui
Mr. Xu Junmin

CORPORATE GOVERNANCE COMMITTEE
Mr. Lam Chun Chin, Spencer *(Chairman)*
Mr. Li Xianjun
Mr. Li Donghui
Mr. Xu Junmin
Mr. Chung Kwok Mo John

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Chiu & Partners

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AUDITOR
Deloitte Touche Tohmatsu

COMPANY'S WEBSITE
www.ytoglobal.com

STOCK CODE
6123

CHAIRMAN'S STATEMENT

ACHIEVEMENT OF COMPREHENSIVE UPGRADE AND BREAKTHROUGH THROUGH INTEGRATION AND SYNERGY

In the year of 2018, although global economic development has been negatively impacted by the trade war, the Company was still capable of achieving impressive results which was mainly benefitted from the excellent performance of our fellow employees as well as the deep integration of the Group's resources and the development breakthroughs in our new business (international express). Our results successfully maintained a stable growth and the operating quality has been continuously enhancing. The operating profit has recorded a significant increase than last year with a year-on-year growth of about 25%.

In 2018, the cross-border e-commerce business maintained a rapid growth. According to the General Administration of Customs of the PRC, the gross amount of import and export commodities retailed through the Custom's cross-border e-commerce management platform amounted to RMB134.7 billion, representing a year-on-year increase of 50%. Thanks to the opportunities brought by the vigorous development of the cross-border e-commerce business, we are grateful to see our Company has achieved breakthroughs in our new business (international express). During the past year, the Company emphasized on implementing the "Belt and Road" initiative and continuously promoting the business development in countries alongside, of which the outcomes of business expansion in Southeast Asian regions are particularly fruitful.

LOOKING TO THE FUTURE

Being an important platform of the commencement of the Group's international business, we will continue to follow the global development strategies promoted by the Group, namely "going global with the "Belt and Road" initiative", "going global with the cross-border e-commerce business" and "going global with the Chinese enterprises", so as to put efforts in developing as a world's leading integrated logistic service provider covering businesses such as international freight forwarding, international express and supply chain management.

We will deeply integrate the Group's quality customer base through integration and synergy, and assist "Made in China" to go global. We will deeply integrate YTO Express Airlines and the Madrid-Yiwu railway resources in central Europe, so as to further convert our key resources into competitiveness, thus provide more diversified and quality international logistic services to customers.

We will proactively implement the "Belt and Road" initiative and seize the historical development opportunities. In view of the huge demands of regions alongside towards infrastructure construction, trades and logistics, we will further expand the construction of logistic routes in countries along the Belt and Road routes, in particular we are seeking breakthroughs in the international express market of emerging economies such as Southeast Asia.

Leveraging on the current overseas networks and team base, we will achieve upgrades and breakthroughs of the Company's businesses and brands through three major development strategies, namely "international express + freight forwarding", "internet + freight forwarding" and "supply chain + forwarding". We consider the cross-border e-commerce business as the new development driver of international logistics. We will continue to expand the business of international package express delivery through the Group's extensive distribution networks and technological experiences, so as to launch the full-chain international express products with the best price-performance ratio and form the business model driven by "international express + freight forwarding". We are increasing the inputs to information technology and focusing on the internet-based upgrade so as to establish a new model of "internet + forwarding", therefore we can provide customers with a more convenient and all-controllable international logistic service experience. With the deepening of Chinese brands and manufacture industry in the global supply chain, we will leverage on the international supply chain service capability in sectors like costumes and electronics which we have accumulated over years, and gradually establish the international supply chain service capability in the specialized niche markets such as aviation materials, medicines and automobile component parts, in order to continue to strengthen our competitive edges in the international "supply chain + freight forwarding" services.

THANK YOU

I hereby would like to express my gratitude and appreciation to our Shareholders for their confidence and supports, our each member of the Board for their valuable opinions as well as our management team and fellow employees for their efforts and contributions. Under the proper strategic guidance of the Group, I am looking forward to the full commitment of all staff members and striving for achieving the vision of "The World is Within Your Reach".

Yu Huijiao
Chairman

Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Board announces the audited annual results of the Group for the FY2018. During the FY2018, there was growth in the air freight business and such growth was due to the increase in demand for air freight services and new customers on board. This has enhanced the positive financial results during the FY2018.

Financial Results

The Group recorded revenue of about HK$4,462.8 million during the FY2018 (FY2017: about HK$3,670.5 million), representing an increase of about 21.6%. Gross profit amounted to about HK$595.0 million during the FY2018 (FY2017: about HK$571.8 million), representing an increase of about 4.1%. Gross profit margin during the FY2018 was about 13.3% (FY2017: about 15.6%). Net profit was about HK$105.7 million during the FY2018 (FY2017: about HK$101.0 million), representing an increase of about 4.7% while the net profit attributable to owners of the Company increased by about 6.8% to about HK$104.2 million during the FY2018 (FY2017: about HK$97.5 million). The increase in profit was mainly due to (a) the contribution of air freight business revenue and profits to the Group from Best Loader Logistics Company Limited ("Best Loader HK") and 翼尊國際貨運代理（上海）有限公司 ("Best Loader Shanghai") which were acquired by the Group in mid of 2017; (b) the discontinuation of contract logistics business in the USA during the fourth quarter of 2017 which has not contributed profit to the Group; (c) the increase in demand for air freight services brought by customers in the air freight segment; (d) the decrease in provision of doubtful debts and bad debts and increase in reversal of provisions of doubtful debts in respect of outstanding trade receivables which amounted to about HK$5.5 million and about HK$5.0 million respectively; and (e) the business segment of international express and parcel services, which contributed about HK$25.4 million profit to the Group during the FY2018 with an increase of about HK$23.2 million profit to the Group.

Segmental Analysis

The Group's core businesses are air and ocean freight forwarding, complemented by the ancillary and contract logistics services, (including warehousing, distribution and customs clearance), international express and parcel services and other businesses (comprising combine shipments, trucking, general sales agency and hand-carry services). The comprehensive range of services offered by the Group enables the Group to meet diverse customers' needs and provide cross-selling opportunities.

Air Freight

The air freight forwarding business continued to constitute the largest business segment of the Group, representing about 70.1% of the Group's total revenue during the FY2018 (FY2017: about 67.0%). It principally involves arranging shipment upon receipt of booking instructions from customers, obtaining cargo space from airlines, preparing the relevant documentation, and upon delivery to the destination, arranging customs clearance and cargo handling. The Group is well recognised in the logistics industry, having received numerous accolades from international organisations and major airlines since 2000, including honours from the World Cargo Alliance, and "Top Agent Award" from Cathay Pacific Cargo/Cathay Dragon each year since 2006. Consequently, the Group has become the preferred business partner of renowned companies from around the world, hailing from the garment, footwear and electronic industries, delivery of small parcels for e-commence business and among others.

During the FY2018, the air freight business recorded revenue of about HK$3,129.3 million (FY2017: about HK$2,458.1 million), representing an increase of about 27.3%. Gross profit of the segment also increased from about HK$295.6 million during the FY2017 to about HK$325.7 million during the FY2018, representing an increase of about 10.2%. In respect of air import and export tonnage, the Group noted a total increase of tonnage of about 28.3% for the FY2018 when compared to the FY2017. During the FY2018, the Group opened one office in Hangzhou. As such, 54 offices around the world remained as at 31 December 2018, out of which 47 offices are located in 11 Asian countries and territories, comprising Hong Kong, the PRC, Cambodia, India, Indonesia, Japan, Malaysia, Singapore, Thailand, the United Arab Emirates and Vietnam, two offices in Europe and five offices in America.

BUSINESS REVIEW (CONTINUED)

Segmental Analysis (Continued)

Ocean Freight

Contributing about 19.2% of the Group's total revenue during the FY2018 (FY2017: about 25.2%), the ocean freight forwarding business principally involves organising shipments, arranging customs clearance and haulage service. The established relationships with trade partners and shipping lines, together with the in-house tailored freight operations system, have enabled the Group to capture the ocean freight market growth. During the FY2018, revenue of ocean freight segment decreased by about 7.2% year-on-year to about HK$857.0 million (FY2017: about HK$923.6 million). Gross profit decreased to about HK$172.0 million during the FY2018 (FY2017: about HK$192.3 million), representing a decrease of about 10.6% which is mainly due to the closure of two offices in the USA in FY2017. During the FY2018, the Group noted a trial decrease of tonnage of about 4.9% in respect of ocean freight shipping volume handled by the Group, which is due to (a) the disposal of 100% equity interest of OTWL-On Time Worldwide Logistics Ltd. located in Taiwan during the FY2017 and (b) the disposal of 3% equity interest of On Time Worldwide Logistics Ltd. ("OT Korea") located in Korea during the FY2017 and OT Korea ceased to be a subsidiary of the Company and became an associate of the Company.

Ancillary and Contract Logistics Services

Accounting for about 1.7% of the Group's total revenue during the FY2018 (FY2017: about 2.4%), the ancillary and contract logistics services business includes warehousing, distribution and customs clearance. Warehousing includes pick and pack, labelling, quality inspection, sorting, pick-up and delivery services for export shipments from the shipper's location to the outgoing port and delivery of import shipments from arrival at the incoming port to the consignee's location. It is supported by the Group's information technology platform, which allows customers to conveniently trace inventory levels, incoming and outgoing shipments and other information online. During the FY2018, the Group sought to further adjust its warehouse operation to cope with market conditions. During the fourth quarter of 2017, the contract logistics business in the USA which has not contributed profit to the Group has discontinued. Consequently, this business result was reflected with revenue of about HK$76.8 million during the FY2018 (FY2017: about HK$89.4 million), representing a decrease of about 14.1% and the gross profit was about HK$44.2 million during the FY2018 (FY2017: about HK$46.4 million), representing a slight decrease of about 4.7%.

International Express and Parcel Services

International express and parcel services which mainly consists of cross-border small parcels of delivery business is the Group's growing business to capture the development opportunities arising from the global cross-border e-commerce business. It represents about 6.3% of the total revenue of the Group during the FY2018 (FY2017: about 2.8%).The Group considers the e-commerce platform as the new channel and leverages on the strong synergy and integration capability of domestic and foreign logistic resources, so as to increase our market penetration and proactively test the full-chain services, which ultimately provides baskets of cross-border package delivery solutions. YTO Express possesses a strong express logistic service network covering the PRC, which provides firm supports for the Group's development of end-to-end full-chain services. As at 31 December 2018, the Group has established cross-border full-chain services and has entered into strategic cooperation with 18 postal companies or express companies in 17 countries. Through the focus on developing and nurturing the delivery of product from the PRC to Taiwan, the Group has received positive comments from customers and market recognition.

The Group responded actively to changes in markets and competitive landscapes and proactively expanded the international express and parcel services market during the FY2018. Benefiting from the rapid development of e-commerce in Southeast Asia, the continuous deepening of the cooperation with Hangzhou Cainiao Supply Chain Management Co., Limited ("Cainiao") and the development of new customers, revenue from international express and parcel services increased from about HK$103.5 million during the FY2017 to about HK$282.1 million during the FY2018, representing an increase of about 172.7%. During the FY2018, the Group has completed the delivery of about 39.6 million units in international express and parcel business during the FY2018 (FY2017: about 14.2 million).

In the meantime, by imposing stringent key performance indicator management and quality control to the services of suppliers, and implementing strict cost control measures, the timing and quality of our services has been improving, thus the gross profit margin and gross profit of the international express and parcel services business has been increasing correspondingly. During the FY2018, the gross profit of international express and parcel services increased to about HK$25.9 million (FY2017: about HK$3.6 million).

BUSINESS REVIEW (CONTINUED)

Segmental Analysis (Continued)

Others

The other businesses include combined shipments, trucking, general sales agency, e-commerce business and hand-carry services, the latter of which involves time sensitive shipments that allows the Group to charge higher fees and consequently benefit from higher profits. During the FY2018, the other businesses recorded revenue of about HK$117.7 million (FY2017: about HK$96.0 million), representing an increase of about 22.6%, and gross profit of about HK$27.4 million (FY2017: about HK$46.4 million), representing a decrease of about 40.9%. The decrease of gross profit for other businesses during the FY2018 was due to the decrease of volume of trucking services.

Liquidity and Financial Resources

The Group has centralised financing policies and control over all its operations which enables the Group to have a tight control of treasury operations and lower average cost of funds.

The Group's working capital as at 31 December 2018 was about HK$476.4 million, representing an increase of about 9.6% from about HK$434.5 million as at 31 December 2017. The current ratio of the Group increased from about 1.65 times as at 31 December 2017 to about 1.71 times as at 31 December 2018. As at 31 December 2018, the Group's bank balances and cash amounted to about HK$240.7 million, representing a decrease of about 3.0% from about HK$248.2 million as at 31 December 2017. For the FY2018, the Group had operating cash inflow of about HK$63.9 million (FY2017: operating cash outflow of about HK$32.2 million). As at 31 December 2018, the Group's outstanding bank borrowings amounted to about HK$189.0 million (as at 31 December 2017: about HK$179.8 million). The gearing ratio of the Group was about 32.5% as at 31 December 2018 (as at 31 December 2017: 32.5%). The gearing ratio was calculated as total bank borrowings divided by total equity of the Group. As at 31 December 2018, the Group maintained a net cash position (as at 31 December 2017: net cash position). The Group will continue to secure financing as and when the need arises.

BUSINESS REVIEW (CONTINUED)

Foreign Exchange Risk

In light of the nature of the Group's business, the Group is exposed to various foreign currency risks including RMB, US$, RM, SGD, THB, INR, EUR, GBP, CAD, JPY, VND, IDR, HUF and AED among which, RMB, EUR and US$ are mostly used in the Group's business apart from HK$. Nevertheless, the Group's operations are predominately subject to the fluctuations of RMB since HK$ is pegged to US$. The Group did not use any derivative contracts to hedge against its exposure to currency risk during the FY2017 and the FY2018. The Group continued to exercise a strict control policy and did not engage in any speculative trading in debt securities or financial derivatives during the FY2018.

Capital Expenditure Commitments

As at 31 December 2018, the Group has below capital expenditure commitments:

1. The contingent consideration of HK$4,500,000 (as at 31 December 2017: HK$7,200,000) to be determined based on the future financial performance of Best Loader Shanghai; and

2. The contingent consideration of HK$500,000 (as at 31 December 2017: HK$800,000) to be determined based on the future financial performance of Best Loader HK.

Please refer to the announcements of the Company dated 5 May 2017, 3 August 2018 and 15 March 2019 for further details.

Performance Guarantees

(A) In Relation to the Acquisition of the Entire Issued Shares of Best Loader HK

On Time Worldwide Logistics Limited ("On Time BVI"), a direct wholly-owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement on 5 May 2017 (the "First Sale and Purchase Agreement") with Air Partner Logistics Company Limited, as vendor (the "First Vendor") and Ms. Chan Yi Lam, as guarantor for the First Vendor (the "Guarantor"), in relation to the acquisition of the entire issued shares of Best Loader HK. Pursuant to the First Sale and Purchase Agreement, the First Vendor undertakes and guarantees to On Time BVI that (i) the net assets value of Best Loader HK for the year ended 31 December 2017 in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which shall be verified by the Company's auditor (the "2017 Accounts"), will be no less than HK$3.0 million (the "2017 NAV Guarantee"); (ii) the net assets value of Best Loader HK for the year ended 31 December 2018 in accordance with HKFRS, which shall be verified by the Company's auditor (the "2018 Accounts"), will be no less than HK$4.7 million (the "2018 NAV Guarantee"); and (iii) the net assets value of Best Loader HK for the year ending 31 December 2019 in accordance with HKFRS, which shall be verified by the Company's auditor (the "2019 Accounts"), will be no less than HK$7.1 million (the "2019 NAV Guarantee").

After the determination of the 2017 Accounts, the 2018 Accounts and the 2019 Accounts, respectively, On Time BVI shall pay to the First Vendor the remaining balance of the purchase price in the following manner: (i) HK$300,000 to the First Vendor if the 2017 NAV Guarantee is fulfilled; (ii) HK$250,000 to the First Vendor if the 2018 NAV Guarantee is fulfilled; and (iii) HK$250,000 to the First Vendor if the 2019 NAV Guarantee is fulfilled.

The 2017 NAV Guarantee had been fulfilled. Based on the 2018 Accounts, the net assets value of Best Loader HK for the financial year ended 31 December 2018 was approximately HK$8.3 million. Therefore, the 2018 NAV Guarantee had been fulfilled. Given the fulfillment of the 2018 NAV Guarantee, On Time BVI has paid to the First Vendor HK$250,000 in cash for payment of part of the consideration for the First Sale and Purchase Agreement. The Company will publish announcements to inform the Shareholders whether Best Loader HK has achieved the 2019 NAV Guarantee after the determination of the 2019 Accounts.

Please refer to the announcements of the Company dated 5 May 2017, 3 August 2018 and 15 March 2019 for further details in respect of the acquisition.

BUSINESS REVIEW (CONTINUED)

Performance Guarantees (Continued)

(B) In Relation to the Acquisition of the Entire Issued Shares of Best Loader Shanghai

On Line Service Limited ("On Line HK"), an indirect wholly-owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement on 5 May 2017 (the "Second Sale and Purchase Agreement") with the First Vendor and the Guarantor, in relation to the acquisition of the entire issued shares of Best Loader Shanghai. Pursuant to the Second Sale and Purchase Agreement, the First Vendor undertakes and guarantees to On Line HK that (i) the net assets value of Best Loader Shanghai for the year ended 31 December 2017 in accordance with HKFRS, which shall be verified by the Company's auditor (the "2017 SH Accounts"), will be no less than HK$3.5 million (the "2017 SH NAV Guarantee"); (ii) the net assets value of Best Loader Shanghai for the year ended 31 December 2018 in accordance with HKFRS, which shall be verified by the Company's auditor (the "2018 SH Accounts"), will be no less than HK$5.3 million (the "2018 SH NAV Guarantee"); and (iii) the net assets value of Best Loader Shanghai for the year ending 31 December 2019 in accordance with HKFRS, which shall be verified by the Company's auditor (the "2019 SH Accounts"), will be no less than HK$7.9 million (the "2019 SH NAV Guarantee").

After the determination of the 2017 SH Accounts, the 2018 SH Accounts and the 2019 SH Accounts, respectively, On Line HK shall pay to the First Vendor the remaining balance of the purchase price in the following manner: (i) HK$2.7 million to the First Vendor if the 2017 SH NAV Guarantee is fulfilled; (ii) HK$2,250,000 to the First Vendor if the 2018 SH NAV Guarantee is fulfilled; and (iii) HK$2,250,000 to the First Vendor if the 2019 SH NAV Guarantee is fulfilled.

The 2017 SH NAV Guarantee had been fulfilled. Based on the 2018 SH Accounts, the net assets value of Best Loader Shanghai for the financial year ended 31 December 2018 was about RMB9.4 million (equivalent to about HK$10.7 million). Therefore, the 2018 SH NAV Guarantee had been fulfilled. Given the fulfillment of the 2018 SH NAV Guarantee, On Line HK has paid to the First Vendor HK$2,250,000 in cash for payment of part of the consideration for the Second Sale and Purchase Agreement. The Company will publish announcements to inform the Shareholders whether Best Loader Shanghai has achieved the 2019 SH NAV Guarantee after the determination of the 2019 SH Accounts.

Please refer to the announcements of the Company dated 5 May 2017, 3 August 2018 and 15 March 2019 for further details in respect of the acquisition.

(C) In Relation to the Acquisition of the Remaining 25% Equity Interest in the Issued Share Capital of OTX Logistics Holland

Jumbo Channel Limited ("Jumbo Channel"), an indirect wholly-owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement on 9 March 2018 (the "Third Sale and Purchase Agreement") with, among others, T.Y.D. Holding B.V. (the "Second Vendor"), in relation to the acquisition of the remaining 25% equity interest in the issued share capital of OTX Logistics B.V. ("OTX Logistics Holland"). Pursuant to the Third Sale and Purchase Agreement, the Second Vendor undertakes to Jumbo Channel that: (i) in the event that the sum of the audited consolidated net profits after tax of OTX Logistics Holland as stated in the audited accounts of the Company for each of the financial years ending 31 December 2017, 2018 and 2019, respectively, adjusted by any revaluation surplus or deficit of tangible or intangible assets (the "Accumulated Consolidated Net Profit"), shall be less than HK$18.0 million, the Second Vendor shall in aggregate compensate Jumbo Channel HK$3,330,000 after completion of the audited accounts of OTX Logistics Holland for the financial year ending 31 December 2019 (the "2019 Holland Accounts"); (ii) in the event that the Accumulated Consolidated Net Profit shall be less than HK$12.0 million, the Second Vendor shall in aggregate compensate Jumbo Channel HK$6,660,000 after completion of the 2019 Holland Accounts; and (iii) in the event that the Accumulated Consolidated Net Profit shall be less than HK$6.0 million, the Second Vendor shall in aggregate compensate Jumbo Channel HK$10.0 million after completion of the 2019 Holland Accounts.

The Company will publish announcements to inform the Shareholders whether OTX Logistics Holland has achieved the above performance guarantee after the completion of the 2019 Holland Accounts. Please refer to the announcement of the Company dated 9 March 2018 and the circular of the Company dated 3 April 2018 for further details in respect of the acquisition.

BUSINESS REVIEW (CONTINUED)

Charge on Assets

As at 31 December 2018, the Group had pledged the following assets to secure certain banking facilities representing guarantees on payment to certain airline suppliers of the Group for the Group's cargo space purchase and bank borrowings granted to the Group:

	2018	**2017**
	HK$'000	*HK$'000*
Trade receivables	88,845	120,713
Financial assets at fair value though profit and loss	901	1,017
Loan receivable	7,522	–
Pledged bank deposits	7,548	8,472
	104,816	130,202

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the FY2018, the Group has acquired the remaining 25% equity interest in the issued share capital of OTX Logistics Holland, an indirect non-wholly owned subsidiary of the Company before completion of the acquisition, at a consideration of HK$38,000,000. Immediately after the acquisition, OTX Logistics Holland became an indirect wholly-owned subsidiary of the Company.

Save as disclosed, there was no other material acquisition or disposal of subsidiaries or associated companies of the Company during the FY2018.

PROSPECTS

During the FY2018, the trade war affected the global economy to a large extent, of which the effects will still be slowly released in the year of 2019. Accordingly, the growth of global macro-economy may slow down. Though external conditions are tense, being a subsidiary of YTO Express, the Group will accelerate the integration and synergy with the YTO Express's business. Leveraging on YTO Express's network with extensive coverage and advantages in huge high-quality customer resources, YTO Express will integrate its transportation resources such as its own aviation fleets and railways to the Group. The quality resources, such as aviation fleets and railways, further drive the future business development of the Group. Given the rapid development of global cross-border e-commerce market, the demands for international express and parcel service has been increasing accordingly. The international express and parcel business will become an important driver for the future business growth of the Group. In addition, the acquisitions of the Company's shares and other freight forwarding companies by YTO Global Holdings Limited will enhance the Group's productivity and its global network.

Comprehensive Promotion and Upgrade of International Express and Parcel Business

Along with the further development of Southeast Asian e-commerce economy and the new form of development of e-commerce logistics, the Group will continue to improve the results and performance of international express and parcel business. Adhering to the development strategy of "going global with the "Belt and Road" initiative, going global with Chinese and Chinese enterprises, and going global with cross-border e-commerce industry", the Group will continue to treat the e-commerce platform as the customer inflow channel, and enhance the marketing efforts of self-established platforms, cross-border e-commerce direct major customers and major vendors in platforms, so as to intensively explore the market potentials. The Group will continue to focus on Southeast Asian market, stabilize the business from the PRC to Taiwan and develop the business from Taiwan to Vietnam, while forming a multi-layer product structures from the PRC to the USA and Europe to the PRC. At the same time, the Group will put forward the upgrade and transformation of the information technology system, so as to achieve seamless connection and global integration of our customs systems, business operating systems, payment settlement systems and financial systems.

PROSPECTS (CONTINUED)

Accelerate the Construction of Logistic Routes in Countries along the "Belt and Road" Routes

Since the introduction of the "Belt and Road" initiative, the demands for economic and trade exchanges between the PRC and countries along the "Belt and Road" has been increasing. The Group will continue to respond to the "Belt and Road" initiative proactively and intensify international development landscape. The Group will cooperate with its strategic partners like Cainiao, so as to construct regional logistics gateways and regional international logistic hub in the PRC. In the future, the Group will accelerate the establishment of overseas linkages by strategic cooperation and equity investments, so as to achieve breakthroughs in the development of Southeast Asian express network as appropriate.

Deepen the Specialised Service Capabilities of Supply-chain Management

The Group devotes to enhancing our specialised service capabilities, in order to build up our competitive edges in niche markets. Given that YTO Express possesses enormous e-commerce and corporate customer base within the PRC, the Group will fully draw support from and make use of its customer edge, so as to leverage on the international supply chain service capability in sectors like costumes and electronics which we have accumulated over years, and gradually establish the service capability of supply-chain management in the specialized niche markets such as aviation materials, medicines and automobiles.

Integrate the Trend of Internet Development and Strengthen Information Construction

The Group will continue to focus on informatization and automation, with an aim to further enhance the all-controllability of the full supply chain. The Group is increasing its inputs to information technology, so as to gradually enable the processes of freight forwarding business to turn online, all-controllable and digitized, thus to provide high-quality services for customers. Meanwhile, the Group will develop the technology and ability of big data analysis gradually, so as to achieve the shift to smart and intelligent corporate management.

It is expected that the Group will implement the above plans by the internal resources of the Group and/or external financing.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF DIRECTORS

Executive Directors

Mr. Lam Chun Chin, Spencer ("Mr. Lam"), aged 60, is an executive Director, the chief executive officer and the chairman of the Corporate Governance Committee of the Company. He was appointed as a Director on 6 March 2013 and re-designated as an executive Director on 20 December 2013. Mr. Lam is the founder of the Group and he is responsible for overall strategic development, and leading the business development of the Group. Prior to the establishment of the Group in 1995, Mr. Lam had been an assistant route manager from May 1984 to December 1986 and was then promoted as route manager from January 1987 to June 1988, as assistant sales manager from July 1988 to December 1989, as sales manager from January 1990 to December 1990 and as an assistant general manager from January 1991 to December 1997 of Freight Express International Ltd., which was then principally engaged in freight forwarding service. He was mainly responsible for the overall sales strategy as well as sales activities of Freight Express International Ltd. on the east and westbound sector for air freight, sea freight and sea-air traffic worldwide. He has over 35 years of experience in operation and management of freight forwarding and logistics industry. Mr. Lam obtained his diploma in management studies which was jointly awarded by Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) and The Hong Kong Management Association in September 1991. He is also a director of certain subsidiaries of the Company. Mr. Lam is the beneficial owner and the sole director of Golden Strike International Limited, one of the substantial Shareholders.

As of 31 December 2018, Mr. Lam was interested in certain Shares. Please refer to the section headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" for further details.

Mr. Li Xianjun ("Mr. Li"), aged 47, was appointed as an executive Director, the President and a member of the Corporate Governance Committee of the Company on 1 December 2017. Mr. Li obtained a bachelor's degree in economy management from 華東理工商貿學院 (East China Polytechnic Institute of Commerce*) in July 2007. Mr. Li joined YTO Express Group in March 2002 and held various managerial positions in different branch offices. Mr. Li currently also serves as the special assistant to the chairman, supervisor and vice president of YTO Express.

Non-executive Directors

Mr. Yu Huijiao ("Mr. Yu"), aged 52, was appointed as a non-executive Director, the chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee on 1 December 2017. He obtained a bachelor's degree in information systems application and management from 解放軍信息工程大學 (PLA Information Engineering University*) in December 2013. Mr. Yu founded 圓通速遞有限公司 (Yuantong Express Delivery Co., Ltd.*) (previously known as 上海圓通速遞有限公司), a subsidiary of YTO Express, in May 2000 and currently serves as the chairman of the board and the chief executive officer of YTO Express. Mr. Yu has served as the chairman of the board of Yuantong Jiaolong since December 2010.

As of 31 December 2018, Mr. Yu was interested in certain Shares. Please refer to the section headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" for further details.

Mr. Su Xiufeng ("Mr. Su"), aged 44, was appointed as a non-executive Director on 1 December 2017. He obtained a bachelor's degree in English from 廣東外國語學院 (Guangzhou Institute of Foreign Languages*) in June 1995 and a master of business administration degree from the City University (美國城市大學*) in September 2006. Mr. Su joined YTO Express Group in December 2015 and currently serves as the vice president of YTO Express, a director and the vice chairman of Yuantong Jiaolong and the chairman of 杭州圓通貨運航空有限公司 (YTO Cargo Airlines Co., Ltd.*). Prior to joining YTO Express Group, Mr. Su served as the chief executive officer of 浙江長龍航空有限公司 (Zhejiang Loong Airlines Co., Ltd*) (previously known as 長龍國際貨運航空有限公司 (CDI Cargo Airlines Co., Ltd*)) from November 2011 to April 2013 and he joined Yuantong Jiaolong in May 2013.

Mr. Zhu Rui ("Mr. Zhu"), aged 35, was appointed as a non-executive Director on 1 December 2017. He obtained a master's degree in law from 華東政法大學 (East China University of Political Science and Law*) in June 2008. Mr. Zhu joined YTO Express Group in October 2015 and currently serves as the vice president and the secretary to the board of YTO Express. Prior to joining YTO Express, Mr. Zhu held various positions, including being an executive director of the investment banking department of Guotai Junan Securities Co. Ltd., the shares of which are listed on the Shanghai Stock Exchange (stock code: 601211) and the Stock Exchange (stock code: 2611).

Mr. Lin Kai ("Mr. Lin"), aged 43, was appointed as a non-executive Director and a member of the Audit Committee on 1 December 2017. He obtained a master's degree in business administration from De La Salle University in December 2003. Mr. Lin joined YTO Express Group in August 2016 and currently serves as the vice president and chief financial officer of YTO Express. Prior to joining YTO Express, Mr. Lin was a partner of 寧波航捷投資合夥企業（有限合夥）(Ningbo Hangjie Investment Partnership (Limited Partnership)*) from January 2016 to August 2016. Between April 2014 and January 2016, Mr. Lin served as the vice president of finance of 上海韻達貨運有限公司 (Shanghai Yunda Freight Co., Ltd*).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

BIOGRAPHIES OF DIRECTORS (CONTINUED)

Independent non-executive Directors

Mr. Li Donghui ("Mr. Li"), aged 48, was appointed as an independent non-executive Director and a member of the Audit Committee, the Nomination Committee and the Corporate Governance Committee on 1 December 2017. He obtained a bachelor's degree in philosophy from Renmin University of China in July 1991, a master's degree in management engineering from 北京機械工業學院 (Beijing Institute of Machinery*) in June 1997, and a master's degree in business administration from Kelley School of Business of Indiana University in March 2010. Since Mr. Li has joined the group companies of Geely Automobile Holdings Limited ("Geely"), a company listed on the Main Board of the Stock Exchange (stock code: 0175), in July 2016, he has worked for various positions and currently serves as an executive director and vice chairman of Geely. Prior to joining Geely, Mr. Li served as the vice president and chief financial officer of Guangxi Liugong Machinery Co., Ltd, a company listed on the Shenzhen Stock Exchange (stock code: 000528), between December 2009 and March 2011. Between May 2014 and June 2016, Mr. Li served various positions including as a director and the vice chairman of 北京東方園林環境股份有限公司 (Beijing Orient Landscape & Environment Co., Ltd.*) (previously known as 北京東方園林股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002310). Mr. Li is currently an independent director of 中青旅控股股份有限公司 (China CYTS Holding Co., Ltd.*), a company listed on the Shanghai Stock Exchange (stock code: 600138).

Mr. Xu Junmin ("Mr. Xu"), aged 54, was appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Nomination Committee and the Corporate Governance Committee on 1 December 2017. He obtained a bachelor's degree in electromagnetic engineering from 上海科學技術大學 (Shanghai University of Science and Technology*) in July 1987 and a master's degree in business administration from Arizona State University in May 2009. Mr. Xu had served as an independent director of 上海利策科技股份有限公司 (Shanghai Richtech Engineering Co., Ltd.*), a company listed on the National Equities Exchange and Quotations (stock code: 832547), from July 2016 to December 2018. Mr. Xu held various positions in the group companies of 上海吉祥航空股份有限公司 (Juneyao Airlines Co., Ltd.*) (previously known as 上海吉祥航空有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603885), including a director of 九元航空有限公司 (9 Air Company Limited*) and an executive director and the general manager of 上海吉寧文化傳媒有限公司 (Jining Culture Media Co., Ltd*). He has been serving as the board secretary of Juneyao Airlines Co., Ltd. since November 2010 and a director of Juneyao Airlines Co., Ltd. since July 2017. He has also been serving as an independent director of 上海二三四五網絡控股集團股份有限公司 (Shanghai 2345 Network Holding Group Co. Ltd.*), a company listed on the Shenzhen Stock Exchange (stock code: 002195) since May 2016.

Mr. Chung Kwok Mo John ("Mr. Chung"), aged 50, was appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Corporate Governance Committee on 1 December 2017. He obtained a bachelor's degree in economics from Macquarie University in April 1992 and is a member of CPA Australia and Hong Kong Institute of Certified Public Accountants, with over 20 years of experience in auditing, financial management and corporate finance. Mr. Chung was an auditor in Arthur Andersen (an international accounting firm) from 1992 to 1999. From 2000, Mr. Chung held several senior management positions, including chief financial officer, executive director and independent non-executive director, in a number of listed companies in Hong Kong. Mr. Chung is presently a vice president of Yongsheng Advanced Materials Company Limited, a company listed on the Stock Exchange (stock code: 3608). Mr. Chung is also currently an independent non-executive director of the following companies listed on the Stock Exchange: (i) BYD Electronic (International) Company Limited (stock code: 285) since June 2013; (ii) Zhengye International Holdings Company Limited (stock code: 3363) since March 2011; (iii) B & S International Holdings Ltd. (stock code: 1705, a company listed on the Stock Exchange on 14 March 2018) since February 2018; and (iv) Tokyo Chuo Auction Holdings Limited (stock code: 1939, a company listed on the Stock Exchange on 11 October 2018) since September 2018.

BIOGRAPHIES OF SENIOR MANAGEMENT

Mr. Huang Yifeng ("Mr. Huang"), aged 37, was appointed as the vice president of the Company on 3 December 2018 and has been promoted as the President of the Company since 28 March 2019. He is now responsible for the overall strategy planning and international express business development. Mr. Huang graduated from Shanghai University of Finance Economics with a master degree in statistics. He joined YTO Express Group in January 2016, and held various managerial positions in strategy and merger and acquisition. Prior to joining YTO Express Group, he had been a senior consultant of consulting department in Deloitte Touche Tohmatsu from March 2007 to December 2010, as a senior investment manager of a private equity fund, Shanghai Yonghua Capital Management Co., Ltd. from December 2010 to November 2013, and as a senior investment director of Shanghai Fosun High Technology (Group) Co., Ltd. from November 2013 to January 2016.

* *For identification purposes only*

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

BIOGRAPHIES OF SENIOR MANAGEMENT (CONTINUED)

Ms. Wong Pui Wah ("Ms. Wong"), aged 44, is the chief financial officer of the Company and the Company Secretary. She is responsible for overall financial and banking management and overall human resources and administrative management of the Group. Ms. Wong joined the Group in March 2006 and worked as an accounting manager. She became the financial controller of the Group since August 2006. She was an executive Director on 20 December 2013 to 1 December 2017. Prior to joining the Group, Ms. Wong had acquired auditing and accounting experiences by working in various accountancy firms which include Frank Ho & Co., Y.L. Ngan & Company, C.W. Leung & Co. and RSM Nelson Wheeler (currently known as RSM Hong Kong) from June 1998 to March 2006. She has over 20 years of experience in auditing, accounting and financial management. Ms. Wong graduated from Lingnan College (currently known as Lingnan University) with a bachelor's degree in business administration in November 1998. She also obtained a master's degree in professional accounting from The Hong Kong Polytechnic University in November 2010. She is a non-practising member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Ms. Wong is also a director of certain subsidiaries of the Company.

Mr. Hartmut Ludwig Haenisch ("Mr. Haenisch"), aged 54, was appointed as the managing director, USA and Southeast Asia, freight forwarding industry and trade lane of the Company. Mr. Haenisch is responsible for overall sales and leading the business development of the Group and communication with key customers and suppliers. He joined the Group in January 1998 and worked as a director of international sales from January 1998 to February 1998. Mr. Haenisch has been the managing director of the Group since March 1998 and was an executive Director on 20 December 2013 to 1 December 2017. Prior to joining the Group, he had been a marketing executive from May 1994 to July 1995 and was later promoted as sales manager in charge of European traffic from August 1995 to December 1997 of Freight Express International Ltd., which was then principally engaged in freight forwarding service. Mr. Haenisch was mainly responsible for the sales activities of Freight Express International Ltd. He has over 25 years of experience in sales and management of freight forwarding and logistics industry. Mr. Haenisch obtained a master's degree in business administration from University of Osnabrück of Germany in March 1992. He is also a director of certain subsidiaries of the Company.

Ms. Cheung Ching Wa, Camy ("Ms. Cheung"), aged 53, is the managing director, Hong Kong and China, freight forwarding, e-commence transportation and contract logistics business of the Company. She is responsible for overall administration and management and information technology development of the Group. Ms. Cheung joined the Group in November 1997 and worked as an executive secretary from December 1997 to December 2000. She has been the general manager of the Group since January 2001 and was an executive Director on 20 December 2013 to 1 December 2017. Prior to joining the Group, Ms. Cheung has acquired secretarial experiences by working in Nina Ricci (Far East) Ltd., which was then principally engaged in perfume trading, the Hongkong and Shanghai Banking Corporation Limited, Gemex Trading Limited, which was then principally engaged in trading, and Freight Express International Ltd., which was then principally engaged in freight forwarding service from June 1986 to November 1997. She has over 26 years of experience in administration and management of freight forwarding and logistics industry. She completed a course in office management for secretaries and administrative assistants from Centre for Professional and Continuing Education (currently known as College of Professional and Continuing Education) of The Hong Kong Polytechnic University in September 1997. Ms. Cheung graduated from the Bolton Institute of Higher Education (currently known as University of Bolton) of the United Kingdom with a bachelor's degree in business studies in June 2003. She is also a director of certain subsidiaries of the Company.

Mr. Dennis Ronald de Wit ("Mr. D.R. de Wit"), aged 60, the managing director, the Netherlands. He is responsible for overall sales, leading the business development of the Group and communication with key customers and suppliers in the Netherlands, central Europe and the USA. Mr. D.R. de Wit joined the Group in December 2011 as a result of the Group's acquisition of OTX Logistics B.V. and was an executive Director on 20 December 2013 to 1 December 2017. Prior to joining the Group, he had been a director from March 1984 to October 1986 of Allfreight International B.V., which was then principally engaged in freight forwarding services, and was mainly responsible for the overall management. Mr. D.R. de Wit managed Internationaal Expeditiebedrijf Ebrex Air B.V., which was then principally engaged in freight forwarding services, through his management company D.R. de Wit Beheer B.V. from December 1987 to June 1993. He has been a director of OTX Logistics B.V., an indirect non-wholly owned subsidiary of the Company, since May 1999. Mr. D.R. de Wit is also a director of certain subsidiaries of the Company.

Mr. Lau Wai Man ("Mr. Lau"), aged 47, is the air freight director of the Group. He has been with the Group since June 1998. Mr. Lau has been the Group's operations manager from June 1998 to December 2011, where he was responsible for operational matters, and he was promoted to the air freight director of the Group at the end of 2011. He obtained a certificate in air freight forwarding from the Vocational Training Council of Hong Kong in July 1992. He then completed a traineeship as an airfreight operations clerk in September 1993. Mr. Lau also obtained a professional diploma in inventory and logistics management from The Hong Kong Management Association in September 2002, a continuing education diploma in management studies from City University of Hong Kong in July 2010 and a bachelor's degree in logistics from University of Huddersfield of the United Kingdom in November 2012. He is a chartered member of The Chartered Institute of Logistics and Transport since June 2013.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and the audited consolidated financial statements for the FY2018.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 6 March 2013. The Shares were listed on 11 July 2014 on the Main Board of the Stock Exchange. The Company acts as an investment holding company. The activities of its principal subsidiaries are provision of freight forwarding services. The principal activities of the principal subsidiaries are set out in note 50 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

During the year, other than the Share Option Scheme and the Share Award Plan, as set out in the sections headed "Share Option Scheme" and "Share Award Plan" of this Directors' Report, the Company has not entered into any equity-linked agreement.

RESULTS AND DIVIDENDS

The results of the Group for the FY2018 are set out in the consolidated statement of profit or loss on page 49.

The Board recommended the payment of a final dividend of HK3.8 cents (2017: 2.3 cents) per ordinary Share, absorbing a total amount of about HK$15,742,000 (2017: 9,528,000), in respect of the FY2018, which is subject to the approval of the Shareholders at the AGM to be held on Tuesday, 11 June 2019. The proposed final dividend is expected to be paid on Friday, 12 July 2019 to all Shareholders whose names to be appeared on the register of members of the Company on Friday, 21 June 2019.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") which sets out the principles and guidelines in relation to the declaration, payment or distribution of the Company's net profits as dividends to the Shareholders. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The Company does not have any pre-determined dividend payout ratio. Subject to the Articles and all applicable laws and regulations, the Board has discretion to declare and distribute dividends to the Shareholders taking into account the following:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans; and
- interests of Shareholders.

Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles. The Board will review the Dividend Policy as appropriate from time to time.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 144. This summary does not form part of the audited financial statements.

BUSINESS REVIEW

A review of the Group's business during the year, which includes particulars of important events affecting the Group during the year and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement" and "MD&A" in this annual report. In addition, an analysis of the Group's performance using financial key performance indicators is included in the section headed "MD&A" in this annual report and a discussion of the principal risks and uncertainties facing by the Group is included in the section headed "MD&A" and notes 4, 6, 41 and 42 to the consolidated financial statements in this annual report. The review forms part of this Directors' Report.

Environment protection

The Group complies with environmental legislation, encourages environmental protection and promotes its awareness to all employees of the Group. The Group commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as re-deployment of office furniture as far as possible, encouraging use of recycled paper for printing and copying, double-sided printing and copying, setting up recycling bins, reducing energy consumption by switching off idle lightings, air conditioning and electrical appliances. The Group will review its environmental practices from time to time and consider implementing further eco-friendly measures, sustainability targets and practices in the operation of the Group's businesses to embrace the principles of reducing, recycling and reuse, and further minimize the impact on the natural environment.

Relationships with key stakeholders

The Group's success also depends on the support from our key stakeholders which comprise employees, customers, vendors and Shareholders.

Employees

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise high-performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by offering appropriate training and providing opportunities within the Group for career advancement.

Customers

The Group's principal customers are engaged in garment, footwear and electronic industries and delivery of small parcels for e-commerce business. The Group has the mission to provide excellent customer service in air freight and sea freight and all range of logistic services whilst maintaining long term profitability, business and asset growth. Various means have been taken to strengthen the communications between customers and the Group in the provision of excellent customer service towards market penetration and expansion.

Vendors

Sound relationships with key service vendors of the Group are important in supply chain, airline company, shipping line company and business agents and when meeting business challenges and regulatory requirements, which can derive cost effectiveness and long term business benefits.

Shareholders

One of the corporate goals of the Group is to enhance corporate value to Shareholders. The Group is committed to fostering business developments for achieving the sustainability of earnings growth and rewarding Shareholders by stable dividend payouts, taking into account of capital adequacy levels, liquidity positions and business expansion needs of the Group.

Compliance with laws and regulations

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the FY2018.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The decrease in the fair value of the investment properties which has been charged to the consolidated statement of profit or loss and other comprehensive income for the FY2018 amounted to HK$457,000.

The decrease in the fair value of the property, plant and equipment which has been charged to the consolidated statement of profit or loss and other comprehensive income for the FY2018 amounted to HK$352,000.

Details of these and other movements in the investment properties and property, plant and equipment of the Group are set out in notes 15 and 16 to the consolidated financial statements, respectively.

SHARE CAPITAL

Details of share capital are set out in note 37 to the consolidated financial statements.

DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the FY2018.

HUMAN RESOURCES

As at 31 December 2018, the Group employed about 1,130 employees (as at 31 December 2017: about 1,060 employees). Remuneration packages are generally structured to market terms, individual qualifications and experience. The Company has also adopted the Share Option Scheme and the Share Award Plan for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, who contribute to the success of the Group's operations. Training activities have also been conducted to improve the performance of sales and marketing activities and customer services.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the FY2018.

RESERVES

Details of the movements in the reserves of the Group and the Company during the FY2018 are set out in the consolidated statement of changes in equity and note 49 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's distributable reserve as at 31 December 2018 is set out in the consolidated statement of changes in equity.

DIRECTORS

The Directors during the FY2018 and up to the date of this report were:

Executive Directors:

Mr. Li Xianjun
Mr. Lam Chun Chin, Spencer, Chief Executive Officer

Non-executive Directors:

Mr. Yu Huijiao, Chairman
Mr. Su Xiufeng
Mr. Zhu Rui
Mr. Lin Kai

Independent non-executive Directors:

Mr. Li Donghui
Mr. Xu Junmin
Mr. Chung Kwok Mo John

In accordance with the Articles, Mr. Li Xianjun, Mr. Lam Chun Chin, Spencer and Mr. Yu Huijiao will retire at the forthcoming AGM and all of them, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

(A) Long position in ordinary Shares

Name of Director	Capacity/nature of interest	Number of Shares involved	Approximate percentage* of shareholding
Mr. Lam Chun Chin, Spencer	Interest of a controlled corporation *(Note 1)*	40,224,000	9.71%
Mr. Yu Huijiao	Interest of controlled corporations *(Note 2)*	268,229,408	64.75%

Notes:

1. These Shares are held by Golden Strike International Limited ("Lam Investco"), which is wholly owned by Mr. Lam Chun Chin, Spencer. By virtue of the SFO, Mr. Lam Chun Chin, Spencer is deemed to be interested in the Shares held by Lam Investco.

2. These Shares are held by YTO Global Holdings Limited, a company wholly owned by Yuan Jun. Yuan Jun is a company wholly owned by YTO Express, which is in turn owned as to 51.05% by Yuantong Jiaolong. Yuantong Jiaolong is a company owned as to 51% by Mr. Yu Huijiao and 49% by his spouse, Ms. Zhang Xiaojuan. By virtue of the SFO, Mr. Yu Huijiao and Ms. Zhang Xiaojuan are deemed to be interested in the Shares held by YTO Global Holdings Limited.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (CONTINUED)

(B) Long position in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Capacity/nature of interest	Number of shares involved/ amount of registered capital	Approximate percentage* of shareholding
Mr. Yu Huijiao	Yuantong Jiaolong	Beneficial owner	RMB260,100,000	51.00%
		Interest of spouse	RMB249,900,000	49.00%
	YTO Express	Interest of controlled corporations	1,579,971,414	55.86%
		Beneficial owner	133,450,083	4.72%
		Interest of spouse	98,127,852	3.47%
	Yuan Jun	Interest of controlled corporations	RMB1,800,000,000	100.00%
	YTO Global Holdings Limited	Interest of controlled corporations	1,600,000,000	100.00%

Note: The relations between Mr. Yu Huijiao and the above associated corporations are set out in note 2 of part (A) of the paragraph headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation". YTO Global Holdings Limited holds more than 50% of the issued share capital of the Company, and Yuantong Jiaolong, YTO Express and Yuan Jun directly/indirectly hold more than 50% of the issued share capital of YTO Global Holdings Limited. In this connection, Yuantong Jiaolong, YTO Express, Yuan Jun and YTO Global Holdings Limited are associated corporations of the Company within the meaning of Part XV of the SFO.

* The percentage represents the number of shares involved divided by the number of the Company's/the Company's associated corporations' issued shares or registered capital as at 31 December 2018.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" and "Share Award Plan" below, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the FY2018.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the sections headed "Connected Transaction" and "Continuing Connected Transactions" below and in note 48 to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the FY2018 or at any time during the FY2018.

PERMITTED INDEMNITY PROVISION

Under the Articles, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors throughout the FY2018 and as at the date of approval of this Directors' Report, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he/she is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the FY2018, no claims were made against the Directors.

DIRECTORS' SERVICE CONTRACTS

Mr. Lam Chun Chin, Spencer, being executive Director, has entered into a service contract with the Company pursuant to which he agreed to act as an executive Director for a term of three years with effect from 1 December 2017, and will continue thereafter unless terminated pursuant to the service contract, or by giving not less than three months' written notice by either party. Mr. Li Xianjun, being an executive Director, has entered into a service contract with the Company pursuant to which he agreed to act as an executive Director for a term of one year with effect from 1 December 2017 and shall be automatically renewable for successive terms of one year each commencing from the next day after the expiry of the current term unless terminated by not less than three months' notice in writing served by either party. Each of the non-executive Directors and the independent non-executive Directors, has been appointed for a term of one year with effect from 1 December 2017, which shall be automatically renewable for successive terms of one year each commencing from the next day after the expiry of the current term of appointment unless terminated by giving not less than three months' written notice by either party.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Shareholders on 21 June 2014 (the "Share Option Scheme Adoption Date"). The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders of any member of the Group, advisers or consultants of the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years after the Share Option Scheme Adoption Date.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares in issue on the Listing Date (the "General Scheme Limit"). As at the date of this report, the total number of Shares available for issue under the Share Option Scheme was 38,534,000 Shares, representing about 9.30% of the issued share capital of the Company. The Company may renew the General Scheme Limit with Shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the Shareholders' approval.

SHARE OPTION SCHEME (CONTINUED)

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of: (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

During the FY2018, no share options have been outstanding, granted, exercised, lapsed or cancelled by the Company under the Share Option Scheme.

SHARE AWARD PLAN

The Board adopted the Share Award Plan on 17 August 2018 (the "Share Award Plan Adoption Date"). The purposes of the Share Award Plan are to recognise and reward the contribution of the eligible participants to the growth and development of the Group, to give incentives to the eligible participants in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

Subject to any earlier termination as may be determined by the Board, the Share Award Plan will remain in force for a period of 10 years from the Share Award Plan Adoption Date.

The Share Award Plan shall be subject to the administration of the Board (by itself or through the plan administrator) and the trustee in accordance with the terms of the Share Award Plan and the terms of the trust deed. The trustee shall hold the trust fund in accordance with the terms of the trust deed.

In any given financial year of the Company, the maximum number of Shares to be subscribed for and/or purchased by the trustee by utilising the funds to be allocated by the Board out of the Company's resources for the purpose of the Share Award Plan shall not exceed 5% of the total number of issued Shares as at the beginning of such financial year. None of the Board or the plan administrator shall instruct the trustee to subscribe for and/or purchase any Shares for the purpose of the Share Award Plan when such purchase and/or subscription will result in such threshold being exceeded.

Details of the Share Award Plan were disclosed in the Company's announcements dated 17 August 2018 and 24 August 2018.

SHARE AWARD PLAN (CONTINUED)

During the FY2018, a total of of 9,400,000 Shares were awarded to the eligible participants, of which (i) 1,900,000 Shares were awarded to three selected participants (the "Connected Selected Participants") who are directors of certain subsidiaries of the Company, being connected persons of the Company; and (ii) 7,500,000 Shares were awarded to 36 selected participants (the "Independent Selected Participants").

Details of movements of the share awards granted under the Share Award Plan for the FY2018 are as follows:

			Number of share awards				
Name or category of selected participants	**Date of award**	**Vesting dates**	**Outstanding as at 1 January 2018**	**Awarded during the year**	**Vested during the year**	**Lapsed/ Cancelled during the year**	**Outstanding as at 31 December 2018**
Connected Selected Participants							
Ms. Wong Pui Wah	31 August 2018	30% on 2 September 2019; 30% on 1 September 2020; and 40% on 1 September 2021	–	800,000	–	–	800,000
Ms. Cheung Ching Wa, Camy	31 August 2018	30% on 2 September 2019; 30% on 1 September 2020; and 40% on 1 September 2021	–	600,000	–	–	600,000
Mr. Chen Jinbo	31 August 2018	30% on 2 September 2019; 30% on 1 September 2020; and 40% on 1 September 2021	–	500,000	–	–	500,000
Sub-total			**–**	**1,900,000**	**–**	**–**	**1,900,000**
Independent Selected Participants	31 August 2018	30% on 2 September 2019; 30% on 1 September 2020; and 40% on 1 September 2021	–	7,500,000	–	–	7,500,000
Sub-total			**–**	**7,500,000**	**–**	**–**	**7,500,000**
Total			**–**	**9,400,000**	**–**	**–**	**9,400,000**

Notes:

(1) None of the above selected participants are Directors.

(2) Details of the above share awards were disclosed in the Company's announcement dated 31 August 2018 and circular dated 1 February 2019.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 43 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2018, so far as is known to the Directors, the following corporations or persons (other than a Director or the chief executive of the Company) had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in ordinary Shares

Name of shareholder	Capacity/nature of interest	Number of Shares involved	Percentage* of the Company's issued share capital
Lam Investco *(Note 1)*	Beneficial owner	40,224,000	9.71%
Ms. Li Wai Fun *(Note 1)*	Interest of spouse	40,224,000	9.71%
YTO Global Holdings Limited *(Note 2)*	Beneficial owner	268,229,408	64.75%
YTO Express *(Note 2)*	Interest of controlled corporations	268,229,408	64.75%
Yuantong Jiaolong *(Note 2)*	Interest of controlled corporations	268,229,408	64.75%
Ms. Zhang Xiaojuan *(Note 2)*	Interest of controlled corporations	268,229,408	64.75%
CAM SPC - Alpha SP	Investment manager	37,698,000 *(Note 3)*	9.10%

Notes:

1. Lam Investco is wholly owned by Mr. Lam Chun Chin, Spencer and Mr. Lam Chun Chin, Spencer is the sole director of Lam Investco. By virtue of the SFO, Mr. Lam Chun Chin, Spencer is deemed to be interested in the Shares held by Lam Investco as disclosed in the paragraph headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above. Ms. Li Wai Fun is the spouse of Mr. Lam Chun Chin, Spencer. Under the SFO, Ms. Li Wai Fun is taken to be interested in the same number of Shares in which Mr. Lam Chun Chin, Spencer is interested.

2. These interests are also disclosed as the interest of Mr. Yu Huijiao in the paragraph headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation".

3. Based on the disclosure of interests form submitted by this substantial shareholder as at 31 December 2018.

* The percentage represents the number of Shares involved divided by the number of the issued Shares as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, other than the Directors and the chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of significant related party transactions of the Group are set out in note 48 to the consolidated financial statements. Save as disclosed in the sections headed "Connected Transaction" and "Continuing Connected Transactions", none of the related party transactions constitutes a connected transaction or continuing connected transaction subject to Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

CONNECTED TRANSACTION

Proposed Issue of Connected Award Shares Under the Share Award Plan to Connected Selected Participants

On 31 August 2018, the Board has resolved to grant awards ("Awards") of award Shares ("Award Shares") to certain eligible participant ("Selected Participants") under the Share Award Plan, of which, 1,900,000 Award Shares ("Connected Award Shares") were awarded to three Connected Selected Participants.

The Connected Award Shares were awarded to, and accepted by, the following connected persons of the Company:

Name of Connected Selected Participants	Relationship with the Group as at the date of the grant of Awards	Number of Connected Award Shares
Wong Pui Wah	Director of certain subsidiaries of the Company	800,000
Cheung Ching Wa, Camy	Director of certain subsidiaries of the Company	600,000
Chen Jinbo	Director of certain subsidiaries of the Company	500,000
Total:		**1,900,000**

Since each of the Connected Selected Participants is a director of certain subsidiaries of the Company as at the date of grant of Awards, the allotment and issue of Connected Award Shares to each of them constituted connected transactions of the Company under the Listing Rules.

Purpose for the Awards

The Board considers that the grant of the Awards to the Connected Selected Participants, which were determined with reference to, among others, the contribution and/or future contribution to the development and growth of the Group, provides incentives to each of them and will allow the Group to attract and retain talents for the continual operation and development of the Group.

Consideration

The Connected Selected Participants are required to pay a vesting price (the "Vesting Price") of HK$1 per Connected Award Share to the trustee ("Trustee") of the Share Award Plan on or before the applicable vesting date ("Vesting Date") to which the vesting of the relevant Connected Award Shares relates (as carried forward pursuant to sub-paragraph (i) of the paragraph headed "Vesting Conditions" below where applicable) (the "Prescribed Payment Deadline"), failing which, the Awards for the Connected Award Shares shall automatically lapse upon expiry of such Prescribed Payment Deadline. The Vesting Price will be paid to the Trustee as trust fund to be held by the Trustee for the Share Award Plan. As such, no fund will be raised by the Company as a result of the issue and allotment of the Connected Award Shares or the satisfaction of the Connected Award Shares by the Shares purchased by the Trustee on the market.

CONNECTED TRANSACTION (CONTINUED)

Vesting

Subject to the vesting conditions as mentioned below being fully satisfied, the Connected Award Shares shall be vested on the following date as follows:

Vesting Year	Vesting Date	Percentage of Connected Award Shares to be vested
2019	The later of (i) the business day ("Business Day", being a day on which the Stock Exchange is open for the business of dealing in securities) immediately after the 12th month following 31 August 2018 ("Date of Grant"); or (ii) the Business Day immediately after the 30th day of the Business Day immediately after the publication of the annual results of the Company for the year ended 31 December 2018 pursuant to the Listing Rules, subject however to the carrying forward mechanism as referred to in sub-paragraph (i) of the paragraph headed "Vesting Conditions" below	30%
2020	The later of (i) the Business Day immediately after the 24th month following the Date of Grant; or (ii) the Business Day immediately after the 30th day of the Business Day immediately after the publication of the annual results of the Company for the year ending 31 December 2019 pursuant to the Listing Rules, subject however to the carrying forward mechanism as referred to in sub-paragraph (i) of the paragraph headed "Vesting Conditions" below (the "2020 Vesting Date").	30%
2021	The later of (i) the Business Day immediately after the 36th month following the Date of Grant; or (ii) the Business Day immediately after the 30th day of the Business Day immediately after the publication of the annual results of the Company for the year ending 31 December 2020 pursuant to the Listing Rules.	40%

Vesting Conditions

Subject to the vesting conditions as mentioned below being fully satisfied, the Connected Award Shares shall be vested on the following date as follows:

(i) Company level performance target:

The Company achieves an audited consolidated profit after tax (excluding extraordinary items) in an amount as prescribed by the Board for each of the years ending 31 December 2018, 2019 and 2020.

If any of the above Company level performance target for the Vesting Year 2019 or Vesting Year 2020 could not be achieved, unless such relevant Company level performance target having been waived or adjusted by the Board, the Connected Award Shares (the "C/F Awarded Shares") in relation to the relevant Vesting Date will not be vested but will be carried forward to the Vesting Date for the next Vesting Year so that the vesting of these C/F Awarded Shares will be vested on the Vesting Date for the next Vesting Year subject to the Company achieving the performance target for the original Vesting Year and the next Vesting Year on an accumulated basis. Assuming that the Connected Selected Participants have achieved his/her personal level performance targets for Vesting Year 2019 as mentioned below, if the Company fails to achieve the performance target set for the Vesting Year 2019 but is able to achieve the performance target set for the Vesting Year 2020 so that the aggregate audited consolidated profit after tax (excluding extraordinary items) for the years ending 31 December 2018 and 2019 equals to or exceeds the aggregate performance targets as prescribed by the Board, the C/F Awarded Shares for the Vesting Year 2019 will be vested on the 2020 Vesting Date. However, if the Company is only able to achieve the performance target set for the Vesting Year 2020 but fails to achieve the aggregate performance targets for both Vesting Year 2019 and Vesting Year 2020, the Connected Selected Participant Awards for the C/F Awarded Shares in respect of the Vesting Year 2019 shall automatically lapse on the 2020 Vesting Date.

CONNECTED TRANSACTION (CONTINUED)

Vesting Conditions (Continued)

(ii) Personal level performance target

The Connected Selected Participant shall obtain an overall score of 60 or above for his/her personal level performance target(s) in respect of the relevant Vesting Year in the appraisal conducted by the chairman of the Company before each of the date of the publication of the annual results of the Company for the financial years ending 2018, 2019 and 2020. Personal level performance target is assessed based on one or more of the indicators as prescribed by the Board.

If the Connected Selected Participant fails to achieve the relevant personal level performance target(s) in respect of the relevant Vesting Year, the Connected Selected Participant Award for the Connected Award Shares for the relevant Vesting Year shall automatically forthwith lapse on the date when the Company by way of written notice informs the Connected Selected Participant of his/her overall score in respect of the relevant Vesting Year on the respective dates of the publication of the annual results of the Company for the years ending 31 December 2018, 2019 and 2020.

Others

In the event that the Connected Selected Participant ceases to be an employee by reason as described in the Share Award Plan, or the Connected Selected Participant is found to be an excluded participant or fails to return duly executed transfer documents prescribed by the Trustee between the date the Connected Selected Participant has made the payment for the Vesting Price and the relevant Vesting Date, the Connected Selected Participant Award made to him/her shall automatically lapse forthwith and all/the relevant Connected Award Shares (as the case may be) shall not vest on the relevant Vesting Date but shall become returned shares for the purposes of the Share Award Plan. Under such circumstances, the Trustee shall within 10 Business Days from the original intended Vesting Date refund to the Connected Selected Participant all of the Vesting Price received (without interest).

A specific mandate for the allotment and issue of the Connected Award Shares to the Trustee to hold on trust for Connected Selected Participants and the grant of the Connected Award Shares to the Connected Selected Participants were approved by the independent Shareholders on 28 February 2019. Please refer to the announcements of the Company dated 31 August, 21 September, 31 December 2018 and 18 January 2019 and the circular of the Company dated 1 February 2019 for further details.

CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions

During the FY2018, the Group has conducted the following continuing connected transactions which were required to be disclosed pursuant to Appendix 16 to the Listing Rules:

Management Agreement with a former executive Director and his controlled company

On 30 December 2016, OTX Logistics B.V. ("OTX Logistics Holland"), an indirect wholly owned subsidiary of the Company and (i) D.R. de Wit Beheer B.V., a company wholly owned by Mr. D.R. de Wit, a former executive Director; and (ii) Mr. D.R. de Wit, entered into a management agreement (the "Management Agreement") for the provision of management services for a term commencing on 1 January 2017 and expiring on 31 December 2019. Pursuant to the Management Agreement, D.R. de Wit Beheer B.V. has been appointed as the contractor for OTX Logistics Holland for the performance of activities of a director and such services shall be provided by Mr. D.R. de Wit. The Group shall pay Mr. D.R. de Wit a fee of EUR14,658 per month, a holiday allowance equivalent to 8% of his monthly fee and a guaranteed year-end bonus of an amount equivalent to his monthly fee. In addition, Mr. D.R. de Wit is entitled to a minimum of 5% of annual pre-tax profits of OTX Logistics Holland, Westpoort Recon B.V., OTX Logistics Rotterdam B.V., OTX Solutions B.V. and Fashion Care Logistics B.V. ("OTX Logistics Holland Group"). Mr. D.R. de Wit is also entitled to, among others, the usage of a company car, reimbursement of out-of-pocket expenses and claim expenses for his health-insurance policy and contribution to pension plan. For the FY2018, the total amount paid by the Group to Mr. D.R. de Wit under the Management Agreement was EUR359,000 (equivalent to about HK$3.3 million) (2017: EUR352,000 (equivalent to about HK$3.1 million)).

Master Agency Agreement with OTX Logistics Holland Group

OTX Logistics Holland, was owned as to 25% by T.Y.D. Holding B.V., which was controlled by Mr. D.R. de Wit. On 30 December 2016, On Time Worldwide Logistics Limited ("OT BVI") (for itself and on behalf of the Company's subsidiaries and associated companies excluding the OTX Logistics Holland Group ("OT BVI Members")), a direct wholly owned subsidiary of the Company, entered into a master agency agreement (the "Master Agency Agreement") with OTX Logistics Holland Group where OT BVI Members have agreed to appoint OTX Logistics Holland Group as their agents in the Netherlands and OTX Logistics Holland Group has agreed to appoint OT BVI Members as their agents for the rest of the world (other than the Netherlands), for the promotion of transportation and logistics business for a term commencing from 1 January 2017 and expiring on 31 December 2019. Pursuant to the Master Agency Agreement, OTX Logistics Holland Group and OT BVI Members agreed to share profits (or loss, if applicable) from operations attributable to the transactions under the Master Agency Agreement on the basis of a 50/50 split based on sums invoiced and received for each shipment after deduction of expenses including break bulk fees, delivery charges, free on board operations charges at the place of origin and customs clearance or brokerage charges at the place of destination.

As disclosed in the Company's announcement dated 30 December 2016, the annual cap of profits from operations attributable to the transactions under the Master Agency Agreement to be shared by OT BVI Members to OTX Logistics Holland Group for the FY2017 is HK$6,618,000; and the annual cap of profits from operations attributable to the transactions under the Master Agency Agreement to be shared by OTX Logistics Holland Group to OT BVI Members for the FY2017 is HK$657,000. As disclosed in the Company's announcement dated 13 December 2017, the Company revised the annual caps of the profits from operations attributable to the transactions under the Master Agency Agreement to be shared by OT BVI Members to OTX Logistics Holland Group to HK$11.1 million, HK$12.2 million and HK$13.4 million for each of the three years ending 31 December 2019; and the annual caps of the profits from operations attributable to the transactions under the Master Agency Agreement to be shared by OTX Logistics Holland Group to OT BVI Members to HK$1.3 million, HK$1.4 million and HK$1.5 million for each of the three years ending 31 December 2019. As disclosed in the Company's announcement dated 2 March 2018, the Company further revised the annual cap of the profits from operations attributable to the transactions under the Master Agency Agreement to be shared by OTX Logistics Holland Group to OT BVI Members to HK$1.6 million, HK$1.8 million and HK$2.0 million for each of the three years ending 31 December 2019.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Continuing connected transactions (Continued)

Master Agency Agreement with OTX Logistics Holland Group (Continued)

For the FY2018, the profits from operations attributable to the transactions under the Master Agency Agreement in the amount of HK$8.5 million (2017: HK$10.0 million) was shared by OT BVI Members to OTX Logistics Holland Group and the profits from operations attributable to the transactions under the Master Agency Agreement in the amount of about HK$0.6 million (2017: HK$1.5 million) was shared by OTX Logistics Holland Group to OT BVI Members.

The Company confirms that it has followed the policies and guidelines as set out in the Stock Exchange's Guidance Letter HKEx-GL73-14 when determining the price and terms of the Management Agreement and the Master Agency Agreement conducted during the FY2018.

Provision of international express and parcel services and air freight services among the Group and YTO Express Members

Since February 2018 and up to 31 December 2018, members of the Group and YTO Express Members, provided services to each other in respect of the provision of international express and parcel services and air freight services ("Past CCT"). For the year ended 31 December 2018, the aggregate amount of (i) international express and parcel services and air freight services fees paid by the Group to YTO Express Members for the Past CCT amounted to approximately HK$35.6 million; and (ii) international express and parcel services and air freight services income received by the Group from YTO Express Members for the Past CCT amounted to approximately HK$7.4 million. The fees paid by the Group to, and the cost charged by the Group on, YTO Express Members for the international express and parcel services and air freight services was calculated on cost plus basis which was negotiated between the parties on arm's length basis and no less favourable to the Group than terms available or offered by independent third parties.

Throughout the year ended 31 December 2018, YTO Express is a company owned as to over 50% by Yuantong Jiaolong, which in turn is a company owned as to 51% by Mr. Yu Huijiao (a non-executive Director and a controlling Shareholder) and 49% by his spouse. Furthermore, YTO Express is a controlling Shareholder. Accordingly, YTO Express is a connected person of the Company under Rule 14A.07 of the Listing Rules.

The Directors (including independent non-executive Directors) consider that the Past CCT, had been entered into in the ordinary and usual course of business of the Group and on normal commercial terms given that the fees paid by the Group to, and the cost charged by the Group on, YTO Express Members for the international express and parcel services and air freight services was calculated on cost plus basis which was negotiated between the parties on arm's length basis and no less favourable to the Group than terms available or offered by independent third parties, and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

As the Company only noticed the Past CCT constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules during its preparation of this annual report, it had failed to comply with the annual review and disclosure requirements under Chapter 14A of the Listing Rules for the Past CCT. The Company has, by way of publication of an announcement, disclosed relevant details of the Past CCT in accordance with Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 24 April 2019 for further details.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Non-exempted continuing connected transactions

OT Thailand Contractual Arrangements and OT Vietnam Contractual Arrangements

During the FY2018, the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements (as defined below) constitute non-exempted continuing connected transactions of the Company under the Listing Rules.

OT Thailand Contractual Arrangements

For reasons as disclosed in the section headed "History, Reorganisation and Corporate Structure – OT Thailand Contractual Arrangements" in the Prospectus, OT BVI entered into the following agreements (the "OT Thailand Contractual Arrangements") with Miss Ruchirek Pipatsriswat ("Miss Ruchirek") on 25 October 2013, who is a substantial shareholder holding 33.5% of shareholding interest in On-Time Worldwide Logistics Limited ("OT Thailand"):

(1) Loan assignment entered into between OT HK as assignor, OT BVI as assignee and Miss Ruchirek as borrower, whereby, the non-interest bearing loan for an aggregate principal amount of THB3,350,000 then owed by Miss Ruchirek to OT HK, was assigned to OT BVI and the loan shall be repayable on demand by OT BVI. The loan is conditional and secured by the pledge of shares in OT Thailand from time to time held by Miss Ruchirek under the share pledge agreement, and the arrangements under the proxy and the letter of undertakings.

(2) Share pledge agreement entered into between OT BVI as lender and Miss Ruchirek as borrower, whereby, Miss Ruchirek has pledged in favour of OT BVI, among others, her 33.5% of the total shareholding interest of OT Thailand, and all further shares and securities deriving from such pledged shares, or otherwise acquired and held by Miss Ruchirek from time to time.

(3) Letter of undertaking by Miss Ruchirek to OT BVI and OT Thailand, whereby, among others, she has irrevocably assigned and directed all dividends and distributions declared, paid and payable by OT Thailand and all distributions of assets and capital made and to be made by OT Thailand in relation to the shares of OT Thailand from time to time held by her to OT BVI (or such person as from time to time designated by it).

(4) Proxy by Miss Ruchirek to OT Thailand, whereby, Miss Ruchirek has irrevocably appointed OT BVI or any person nominated by it to act as Miss Ruchirek's proxy to attend, act and vote in respect of the shares in OT Thailand in her name and on her behalf at any general meeting of shareholders of OT Thailand.

OT Thailand contributed to about 1.4% of the Group's total revenue for the FY2018 (FY2017: 1.4%). Through the OT Thailand Contractual Arrangements, the financial results of OT Thailand were consolidated into the Group's financial statements as if it was the Company's subsidiary and, as a result, the Group bears 82.5% of the economic risks and losses of OT Thailand.

A dividend in an amount of THB9,900,000 ("OT Thailand Dividend") for the FY2018 was made by OT Thailand to its shareholders, in which 82.5% of the OT Thailand Dividend was paid to OT BVI.

OT Vietnam Contractual Arrangements

For reasons as disclosed in the section headed "History, Reorganisation and Corporate Structure – OT Vietnam Contractual Arrangements" in the Prospectus, OT HK entered into the following agreements (the "OT Vietnam Contractual Arrangements") with Dynamic Freight Co., Ltd. ("Vietnam Owner") on 6 November 2013, which is a substantial shareholder holding 49% of the total charter capital of On Time Worldwide Logistics (Vietnam) Co., Ltd. ("OT Vietnam"):

(1) Loan agreement entered into between OT HK as the lender and Vietnam Owner as the borrower, whereby, OT HK advanced to Vietnam Owner the interest bearing loan for a principal amount of US$4,900 and the loan shall be repayable on 22 December 2025 (or such later date as mutually agreed between the parties). The loan is conditional and secured by the mortgage of the charter capital in OT Vietnam from time to time owned by Vietnam Owner under the charter capital mortgage agreement, and the arrangements under the proxy and the letter of undertaking.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Non-exempted continuing connected transactions (continued)

OT Vietnam Contractual Arrangements (continued)

(2) Charter capital mortgage agreement entered into between OT HK as lender and Vietnam Owner as borrower, whereby, the Vietnam Owner has mortgaged in favour of OT HK, among others, all its 49% in the total charter capital of OT Vietnam, and all further charter capital and securities deriving from such mortgaged capital, or otherwise acquired and held by Vietnam Owner from time to time (whether by way of acquisition from the other shareholder(s) of OT Vietnam or by further contribution to the charter capital of OT Vietnam).

(3) Letter of undertaking by Vietnam Owner to OT HK, whereby, among others, it has irrevocably assigned and directed all dividends and distributions declared, paid and payable by OT Vietnam and all distributions of assets and capital made and to be made by OT Vietnam in relation to the shares of OT Vietnam from time to time held by it to OT HK (or such person as from time to time designated by it).

(4) Proxy dated 6 November 2013 by Vietnam Owner to OT Vietnam, whereby, Vietnam Owner has irrevocably appointed OT HK to nominate any person(s) designated by OT HK to act as the authorised representative(s) to participate in the board of directors of OT Vietnam and to act and exercise, on behalf of Vietnam Owner, all its power in respect of all the charter capital of OT Vietnam registered in its name.

OT Vietnam contributed to about 1.9% of the Group's total revenue for the FY2018 (FY2017: 2.7%). Through the operation of the OT Vietnam Contractual Arrangement, the financial results of OT Vietnam were consolidated into the Group's financial statements as if it was the Company's indirect wholly-owned subsidiary and, as a result, the Group bears 100% of the economic risks and losses of OT Vietnam.

A dividend in an amount of VND11,466,275,000 ("OT Vietnam Dividend") for the FY2018 was made by OT Vietnam to its shareholders, in which the entire OT Vietnam Dividend was paid to OT HK.

For risks associated with the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements, please refer to the section headed "Risk Factors – Risks relating to OT Thailand Contractual Arrangements and OT Vietnam Contractual Arrangements" in the Prospectus for details. To mitigate such risks associated, the Group intends to unwind the OT Thailand Contractual Arrangements and OT Vietnam Contractual Arrangements as soon as possible if and when the relevant laws in the respective jurisdictions allow the Group to operate in such jurisdictions without such arrangements.

The purpose of the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements is to provide the Group with effective control over the financial and operational policies of OT Thailand and OT Vietnam, to obtain the economic benefits from OT Thailand and OT Vietnam and acquire the equity interests in OT Thailand and OT Vietnam as and when permitted under the applicable laws in Thailand or Vietnam and to allow the Company to consolidate the financial results of OT Thailand and OT Vietnam into the Group's financial statements as if they were the Group's subsidiaries, and the economic benefit of their business flows to the Group.

Confirmation of auditor of the Company

Deloitte Touche Tohmatsu, the Company's auditor, were engaged to report on the Group's non-exempted continuing connected transactions in accordance with Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu have issued their unqualified letter containing their findings and conclusions in respect of the Management Agreement, the Master Agency Agreement, the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements in respect of the FY2018 in accordance with Rule 14A.56 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the Management Agreement and the Master Agency Agreement in respect of the FY2018 and confirmed that these transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Furthermore, in relation to the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements in respect of the FY2018, the independent non-executive Directors have confirmed that the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements have remained unchanged and consistent with the disclosure as set out in the Prospectus; and both of the said arrangements are fair and reasonable so far as the Group is concerned and in the interests of the Shareholders as a whole.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Prospectus and the transactions as disclosed in note 48 to the consolidated financial statements, no controlling Shareholder or any of its subsidiaries has any contract of significance with the Company or its subsidiaries during the FY2018.

MANAGEMENT CONTRACTS

Save as disclosed in the Prospectus and the sections headed "Connected Transaction" and "Continuing Connected Transactions', no contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the FY2018.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During 1 January 2018 and up to the date of this report, the following Director was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group (the "Competing Business"), as defined in the Listing Rules, details of which are set out below:

Name of Director	Mr. Yu Huijiao, non-executive Director of the Company, who is also a substantial shareholder of YTO Express
Nature and scope of the Competing Business	YTO Express Group is principally engaged in the warehousing and distribution of goods as a leader in the express and courier service market in the PRC
Size of the Competing Business	YTO Express is a company listed on the Shanghai Stock Exchange (stock code: 600233), with market capitalization amounted to RMB28.3 billion as at 31 December 2018
Management of the Competing Business	The positions held by the Directors in YTO Express are as follows: Mr. Yu Huijiao, *chairman of the board and chief executive officer* Mr. Li Xianjun, *special assistant to the chairman, supervisor and vice president* Mr. Xu Siufeng, *vice president* Mr. Zhu Rui, *vice president and secretary to the board* Mr. Lin Kai, *vice president and chief financial officer*

For the FY2018, since YTO Express Group's main focus was warehousing and distribution of goods through express and courier service in the PRC and apart from intra-group freight forwarding services among YTO Express Group members, YTO Express Group did not carry out any freight forwarding services to and/or business with external parties, the Directors considered that the operations of YTO Express Group did not affect the Group's business.

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Shares during the FY2018.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018. As at the date of this annual report, the Group was not involved in any current material legal proceeding, nor was the Group aware of any pending or potential material legal proceedings involving the Group. If the Group was involved in such material legal proceedings, the Group would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

USE OF PROCEEDS

Since the publication of the Company's announcement on 5 May 2017 in relation to the change of use of net proceeds from the Company's initial public offering of about HK$37 million and up to the date of this report, about HK$30 million has been used for the acquisitions of Best Loader HK and Best Loader Shanghai and about HK$7 million has been used for general working capital and general corporate purposes.

MAJOR CUSTOMERS AND SUPPLIERS

During the FY2018, less than 30% of the Group's revenue and cost of sales were attributable to the Group's five largest customers and suppliers, respectively.

REMUNERATION POLICY

Remuneration policy of the Group is reviewed regularly and the remuneration policy and remuneration packages of the executive Directors and members of the senior management of the Group are recommended by the Remuneration Committee to the Board.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the current information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained the prescribed minimum public float under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 5 June 2019 to Tuesday, 11 June 2019 (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming AGM. In order to be qualified for attending and voting at the forthcoming AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Tuesday, 4 June 2019.

Conditional on the passing of the resolution approving the declaration of the proposed final dividend at the forthcoming AGM, the register of members of the Company will also be closed from Wednesday, 19 June 2019 to Friday, 21 June 2019 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the FY2018. In order to be qualified for the proposed final dividend (subject to the approval of the Shareholders at the forthcoming AGM), unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. (Hong Kong time) on Tuesday, 18 June 2019.

CHARITABLE CONTRIBUTIONS

During the FY2018, the Group made charitable contributions in an aggregate amount of about HK$136,000 (FY2017: about HK$126,000).

EVENTS AFTER THE REPORTING PERIOD

As announced by the Company on 28 February 2019, the ordinary resolutions (i) approving the grant of a specific mandate for the allotment and issue in an aggregate of a maximum of 1,900,000 new Shares, the grant of 800,000 awarded Shares, 600,000 awarded Shares and 500,000 awarded Shares pursuant to the Share Award Plan to Ms. Wong Pui Wah, Ms. Cheung Ching Wa, Camy and Mr. Chen Jinbo, respectively, and (ii) approving the grant of a specific mandate for the allotment and issue in an aggregate of a maximum of 7,500,000 new Shares and the grant of an aggregate of 7,500,000 awarded Shares pursuant to the Share Award Plan to 36 Independent Selected Participants were passed by the Shareholders and/or the independent Shareholders at the extraordinary general meeting of the Company held on 28 February 2019. Please refer to the circular of the Company dated 1 February 2019 for further details.

On 22 March 2019, given the fulfillment of the 2018 NAV Guarantee, On Time BVI has paid to the First Vendor HK$250,000 in cash for payment of part of the consideration for the First Sale and Purchase Agreement.

On 22 March 2019, given the fulfillment of the 2018 SH NAV Guarantee, On Line HK has paid to the First Vendor HK$2,250,000 in cash for payment of part of the consideration for the Second Sale and Purchase Agreement.

CHANGE OF COMPANY NAME

As announced by the Company on 14 February 2018, the special resolution approving the change of English name of the Company from "On Time Logistics Holdings Limited" to "YTO Express (International) Holdings Limited" and the dual foreign name of the Company in Chinese "圓通速遞(國際)控股有限公司" be adopted to replace its existing dual foreign name in Chinese "先達國際物流控股有限公司" (the "Special Resolution") was passed by the Shareholders at the extraordinary general meeting of the Company held on 14 February 2018.

Subsequent to the passing of the Special Resolution, the Certificate of Incorporation on Change of Name was issued by the Registry of Companies in the Cayman Islands on 28 February 2018 regarding the change of English name of the Company from "On Time Logistics Holdings Limited" to "YTO Express (International) Holdings Limited" and the dual foreign name of the Company in Chinese from "先達國際物流控股有限公司" to "圓通速遞(國際)控股有限公司".

Please refer to the announcement of the Company dated 21 March 2018 for further details.

AUDITOR

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

On behalf of the Board

Mr. Yu Huijiao
Chairman

Hong Kong, 28 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of good corporate governance in maintaining its corporate transparency and accountability. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

The Company has applied the principles as set out in the CG Code contained in Appendix 14 to the Listing Rules on the Stock Exchange during the FY2018. The Board considers that during the FY2018, the Company has complied with the code provisions set out in the CG Code. Key corporate governance principles and practices of the Company are summarized below.

A. THE BOARD

A1. Responsibilities and Delegation

The Board is responsible for the leadership, control and management of the Company and oversees the Group's business, strategic decision and performances in the attainment of the objective of ensuring effective functioning and growth of the Group and enhancing value to investors. All the Directors carry out their duties in good faith, take decisions objectively and act in the interests of the Company and its Shareholders at all times.

The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any Director may request for independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The Executive Committee and senior management of the Company are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the above-mentioned officers. The Board has the full support of the senior management to discharge its responsibilities.

A2. Board Composition

The composition of the Board for the FY2018 and up to the date of this report is as follows:

Executive Directors:

Mr. Li Xianjun *(Note)*	*(Former President and Member of the Corporate Governance Committee)*
Mr. Lam Chun Chin, Spencer	*(Chief Executive Officer and Chairman of the Corporate Governance Committee)*

Non-executive Directors:

Mr. Yu Huijiao	*(Chairman of the Board, Chairman of the Nomination Committee and Member of the Remuneration Committee)*
Mr. Su Xiufeng	
Mr. Zhu Rui	
Mr. Lin Kai	*(Member of the Audit Committee)*

Independent non-executive Directors:

Mr. Li Donghui	*(Member of the Audit Committee, the Nomination Committee and the Corporate Governance Committee)*
Mr. Xu Junmin	*(Chairman of the Remuneration Committee and Member of the Nomination Committee and the Corporate Governance Committee)*
Mr. Chung Kwok Mo John	*(Chairman of the Audit Committee and Member of the Remuneration Committee and the Corporate Governance Committee)*

Note: With effect from 28 March 2019, Mr. Li Xianjun ceased to be the President of the Company.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

A. THE BOARD (CONTINUED)

A2. Board Composition (Continued)

Throughout the FY2018, the Board has met the requirements of the Listing Rules 3.10 and 3.10A of having a minimum of three independent non-executive directors (representing at least one-third of the Board) with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise.

The members of the Board have skills and experience appropriate for the business requirements and objectives of the Group. Each executive Director is responsible for different business and functional division of the Group in accordance with his/her expertise. The independent non-executive Directors bring different business and financial expertise, experiences and independent judgement to the Board and they are invited to serve on the Board committees of the Company. Through participation in Board meetings, taking the lead in managing issues involving potential conflicts of interests, the independent non-executive Directors have made contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the Shareholders.

To the best knowledge of the Directors, the Directors and senior management have no financial, business, family or other material/relevant relationships with one another.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in light of the independence guidelines set out in the Listing Rules.

A3. Chairman and Chief Executive

The roles and duties of the chairman of the Board and the chief executive officer are held by separate persons in order to ensure a balance of power and authority and preserve a balanced judgement of views. Currently, Mr. Yu Huijiao takes up the role of chairman of the Board and is providing leadership and being responsible for the effective functioning and leadership of the Board, whereas Mr. Lam Chun Chin, Spencer is the chief executive officer of the Company, focusing on the Company's business development and daily management and operations generally.

A4. Appointment and Re-election of Directors

All Directors are appointed for a specific term. Mr. Lam Chun Chin, Spencer (an executive Director) is engaged on a service contract for a term of three years, and will continue thereafter unless terminated by not less than three months' notice in writing served by either the Company or himself. Mr. Li Xianjun (an executive Director) is engaged on a service contract for a term of one year and shall be automatically renewable for successive terms of one year each commencing from the next day after the expiry of the current term unless terminated by not less than three months' notice in writing served by either the Company or himself.

Each of the non-executive Directors and the independent non-executive Directors is appointed for a term of one year and shall be automatically renewable for successive terms of one year each commencing from the next day after the expiry of the current term unless terminated by not less than three months' notice in writing served by either the Company or the Director.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

A. THE BOARD (CONTINUED)

A4. Appointment and Re-election of Directors (Continued)

According to the Articles, one-third of the Directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors should be eligible for re-election at the relevant AGM. In addition, any new Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of Shareholders after his/her appointment, whereas any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM. The Director appointed by the Board as aforesaid shall be eligible for re-election at the relevant general meeting.

At the forthcoming AGM, Mr. Lam Chun Chin, Spencer, Mr. Li Xianjun and Mr. Yu Huijiao shall retire by rotation pursuant to the Articles. All of the above retiring Directors, being eligible, will offer themselves for re-election at the AGM. The Board and the Nomination Committee recommended their re-appointment. The circular of the Company, sent together with this report, contains detailed information of the said Directors as required by the Listing Rules.

A5. Training and Continuing Development for Directors

Each newly appointed Director shall receive formal induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Under code provision A.6.5, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Trainings and professional development for Directors are arranged whenever necessary. In addition, reading material on new or changes to salient laws and regulations applicable to the Group are provided to Directors from time to time for their studying and reference.

The Directors are required to submit to the Company details of the training they received in each financial year for the Company's maintenance of proper training records of the Directors. During the FY2018, all the Directors were provided with reading materials or regulatory update on corporate governance matters and responsibilities of the Directors for their reference and perusal. Besides, Mr. Lam Chun Chin, Spencer, Mr. Li Xianjun, Mr. Yu Huijiao, Mr. Su Xiufeng, Mr. Zhu Rui, Mr. Lin Kai, Mr. Li Donghui, Mr. Xu Junmin and Mr. Chung Kwok Mo John attended other seminars and training sessions arranged by other professional firms/institutions.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

A. THE BOARD (CONTINUED)

A6. Directors' Attendance Records at Meetings

The attendance records of each Director at the Board and Board committee meetings and the general meetings of the Company held during the FY2018 are set out below:

	Attendance/Number of Meetings						
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	Annual General Meeting	Extraordinary General Meeting
Executive Directors:							
Mr. Li Xianjun	4/4	N/A	N/A	N/A	1/1	1/1	0/1
Mr. Lam Chun Chin, Spencer	4/4	N/A	N/A	N/A	1/1	1/1	1/1
Non-executive Directors:							
Mr. Yu Huijiao	4/4	N/A	2/2	1/1	N/A	1/1	0/1
Mr. Su Xiufeng	3/4	N/A	N/A	N/A	N/A	1/1	0/1
Mr. Zhu Rui	4/4	N/A	N/A	N/A	N/A	1/1	0/1
Mr. Lin Kai	4/4	3/3	N/A	N/A	N/A	1/1	0/1
Independent non-executive Directors:							
Mr. Li Donghui	3/4	2/3	N/A	1/1	0/1	1/1	0/1
Mr. Xu Junmin	4/4	N/A	1/2	1/1	1/1	1/1	0/1
Mr. Chung Kwok Mo John	4/4	3/3	2/2	N/A	1/1	1/1	1/1

In addition, the Chairman of the Board held one meeting with the non-executive Directors and the independent non-executive Directors without the presence of executive Directors during the FY2018.

A7. Model Code for Securities Transactions

The Company has devised its own code of conduct regarding Directors' and employees' dealings in the Company's securities (the "Securities Dealing Code") on terms no less exacting than the required standard as set out in the Model Code. Each Director has been given a copy of the Securities Dealing Code. Specific enquiry has been made of all Directors and they have confirmed their compliance with the Securities Dealing Code throughout the FY2018. In addition, no incident of non-compliance of the Securities Dealing Code by the employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES

The Board has established five Board committees, namely, the Executive Committee, the Remuneration Committee, the Nomination Committee, the Audit Committee and the Corporate Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference which are available on the Stock Exchange's website and the Company's website (except for the terms of reference of the Executive Committee which are available to Shareholders upon request). All the Board committees should report to the Board on their decisions or recommendations made.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

B1. Executive Committee

The Executive Committee comprises all the executive Directors and operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decisions. It monitors the execution of the Company's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Company.

B2. Remuneration Committee

The members of the Remuneration Committee during the FY2018 were as follows:

Non-executive Director:

Mr. Yu Huijiao

Independent non-executive Directors:

Mr. Xu Junmin *(Chairman)*
Mr. Chung Kwok Mo John

Throughout the FY2018, the Company has met the Listing Rule requirements of having the majority of the Remuneration Committee members being independent non-executive Directors as well as having the Committee chaired by an independent non-executive Director.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of Directors and members of senior management (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code is adopted). The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by the Board with reference to the performance of the individual and the Company as well as market practice and conditions.

During the FY2018, the Remuneration Committee has held two meetings (the attendance records of each Committee member are set out in section A6 above). The Remuneration Committee performed the following major works during the year:

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES (CONTINUED)

B2. Remuneration Committee (Continued)

– General review and discussion of the remuneration packages, policy and structure of the directors and the senior staff of the Group, and recommendation to the Board;

– Consideration of and recommendation to the Board on the remuneration packages for the directors newly appointed/re-designated during the year; and

– Consideration of and recommendation to the Board on making share awards to certain directors and employees of the Group.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the FY2018 is set out below:

Remuneration band (HK$)	Number of individuals
3,000,000-3,499,999	1
1,500,000-1,999,999	1
1,000,000-1,499,999	3
500,000-999,999	1

Details of the remuneration of each Director for the FY2018 are set out in note 12 to the consolidated financial statements contained in this report.

B3. Nomination Committee

The members of the Nomination Committee during the FY2018 were as follows:

Non-executive Director:

Mr. Yu Huijiao *(Chairman)*

Independent non-executive Directors:

Mr. Li Donghui
Mr. Xu Junmin

Throughout the FY2018, the Company has met the code provision A.5.1 of the CG Code of having a majority of the Committee members being independent non-executive Directors and having the Committee chaired by the Chairman of the Board.

The principal responsibilities of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge, experience and diversity perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identify qualified and suitable individuals to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive of the Company.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the diversity on the Board, the integrity, experience, skills and professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES (CONTINUED)

B3. Nomination Committee (Continued)

For the nomination process of new Director, the Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable). The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. Where appropriate, the Nomination Committee and/or the Board should make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

During the FY2018, in response to the amendment to the CG Code effective from 1 January 2019, the Company has also adopted the director nomination policy. Such policy, devising the criteria and process of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing better Board effectiveness and diversity as well as in compliance with the applicable rules and regulations.

The Company also recognises and embraces the benefit of having a diverse Board to enhance the quality of its performance. To comply with Rule 13.92 of the Listing Rules and the code provision A.5.6 of the CG Code, a board diversity policy was adopted by the Company, pursuant to which the Nomination Committee is responsible for monitoring the implementation of the board diversity policy and assessing the Board composition under diversified perspectives (including but not limited to gender, age, cultural and educational background, or professional experience). The Nomination Committee shall report its findings and make recommendations to the Board, if any. Such policy and objectives will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board.

During the FY2018, the Nomination Committee has held one meeting (the attendance records of each Committee member are set out in section A6 above). The Nomination Committee performed the following major works during the year:

– Review of the existing structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;

– Consideration of and recommendation to the Board on the re-election of the retiring Directors at the Company's AGM held on 8 June 2018; and

– Assessment of the independence of the three independent non-executive Directors.

During the FY2018, the Board has revised the measurable objectives for implementing the board diversity policy as follows:

– At least 40% of the Board members to be aged below 50;

– At least 50% of the Board members to hold a master's degree;

– At least 40% of the Board members to possess professional qualifications in legal or accounting field; and

– At least 20% of the Board members to have business experience in aviation industry.

The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board is maintained during the FY2018. Based on the review by the Nomination Committee, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the board diversity policy for the FY2018.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES (CONTINUED)

B4. Audit Committee

The members of the Audit Committee during the FY2018 were as follows:

Non-executive Director:

Mr. Lin Kai

Independent non-executive Directors:

Mr. Chung Kwok Mo John *(Chairman)*
Mr. Li Donghui

The Company has met the Listing Rules requirements regarding the composition of the Audit Committee throughout the FY2018. The majority of the Audit Committee members are independent non-executive directors. Mr. Chung Kwok Mo John possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditor and making the relevant recommendation to the Board; and reviewing the Company's financial reporting system, internal control and risk management systems and the effectiveness of the internal audit function.

During the FY2018, the Audit Committee has held three meetings (the attendance records of each Committee member are set out in section A6 above). The Audit Committee performed the following major works during the year:

– Reviewed and discussed the annual financial statements, results announcement and annual report for the FY2018, the relevant audit findings of the Company's external auditor; and the recommendation of the re-appointment of the external auditor;

– Reviewed and discussed the interim financial statements, results announcement and interim report for the six months ended 30 June 2018 and the relevant review findings of the Company's external auditor;

– Reviewed the reports prepared by an external adviser on the Group's internal control matters, and reviewed the existing internal audit function of the Company;

– Reviewed the Group's continuing connected transactions for the FY2017 as well as the FY2018 and the revision of annual caps of the continuing connected transactions;

– Reviewed certain material litigation and possible related claims against the Group;

– Reviewed and approved the audit plan of the Company's external auditor, including the nature and scope of audit, remuneration and terms of engagement in respect of the audit on the financial statements for the FY2018; and

– Reviewed the arrangements for employees of the Group to raise concerns about possible improprieties in the Group's financial reporting, internal control or other matters and the investigation process on the reported cases.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES (CONTINUED)

B4. Audit Committee (Continued)

The external auditor has attended the above three meetings and discussed with the Audit Committee members on issues arising from the audit and financial reporting matters. Besides, there is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

B5. Corporate Governance Committee

The members of the Corporate Governance Committee during the FY2018 were as follows:

Executive Directors:

Mr. Lam Chun Chin, Spencer *(Chairman)*
Mr. Li Xianjun

Independent non-executive Directors:

Mr. Li Donghui
Mr. Xu Junmin
Mr. Chung Kwok Mo John

The Corporate Governance Committee is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the CG Code, including developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Securities Dealing Code; and reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report. The Corporate Governance Committee is also responsible for reviewing the Group's process of disclosure, including assessing and verifying the accuracy and materiality of inside information and determining the form and content of any required disclosure; and reviewing and monitoring the effectiveness of the shareholders' communication policy adopted by the Company.

During the FY2018, the Corporate Governance Committee has held one meeting (the attendance records of each Committee member are set out in section A6 above). The Corporate Governance Committee performed the following major works during the year:

- Reviewed the policies and practices on corporate governance of the Group;
- Reviewed the training and continuous professional development of Directors and senior management;
- Reviewed the Company's policies and practices on compliance with legal and regulatory requirements;
- Reviewed the compliance of the Securities Dealing Code;
- Reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report;
- Reviewed the Group's process of disclosure, including assessing and verifying the accuracy and materiality of inside information and determined the form and content of certain required disclosures; and
- Reviewed the effectiveness of the shareholders' communication policy.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

C. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the FY2018.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. Management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

D. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee assists the Board in leading management and overseeing their design, implementation and monitoring of the risk management and internal control systems. The Board reviews the effectiveness of the risk management and internal control systems as well as the internal audit function of the Company on an annual basis through the Audit Committee.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including air freight, sea freight, trade lane, corporate management, human resources, finance and information technology. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Management, in coordination with department heads, assesses the likelihood of risk occurrence, provides treatment plans, and monitors the risk management progress. Management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the FY2018.

The Company has engaged external professional firm for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit function examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

During the FY2018, the Board, as supported by the Audit Committee as well as the report from management and the internal audit findings, reviewed the effectiveness of the Group's risk management and internal control systems, including the financial, operational and compliance controls, and considered that such systems are effective and adequate.

The Company has developed a policy for handling and dissemination of inside information. The policy provides a general guide to the Company's Directors, officers and relevant employees in handling confidential information and monitoring information disclosure.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

E. COMPANY SECRETARY

The Company Secretary is Ms. Wong Pui Wah, who fulfils the qualification requirements laid down in the Listing Rules. Biographical details of Ms. Wong Pui Wah are set out in the section headed "Biographies of Directors and Senior Management" of this report. During the FY2018, Ms. Wong has taken not less than 15 hours of relevant professional training.

F. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the Company's financial statements for the FY2018 is set out in the section headed "Independent Auditor's Report" in this report.

The fees paid/payable to Deloitte Touche Tohmatsu, the Company's auditor, in respect of audit services and non-audit services for the FY2018 are analysed below:

Type of services provided by the external auditor	**Fees paid/payable** *HK$*
Audit services – audit fee for the FY2018	2,300,000
Non-audit services	
– review of interim results for the six months ended 30 June 2018	450,000
– review of continuing connected transactions for the FY2018	87,500
– review of annual results announcement for the FY2018	28,500
TOTAL:	2,866,000

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparent and timely disclosure of corporate information, which enables Shareholders and investors to make the best investment decision.

The Company has in place a shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company maintains a website at www.ytoglobal.com as a communication platform with its Shareholders and investors, where information and updates on the Company's business developments and operations and other information are available for public access. Shareholders and investors of the Company may send written enquiries or requests to the Company via the following contact details:

Attention: Company Secretary

Address: Unit 18, 1st Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Hong Kong

Email: tiffany.wong@chq.ontime-express.com

Tel: (852) 2998 4626

Fax: (852) 3586 7681

Enquiries and requests will be dealt with by the Company in an informative and timely manner.

Besides, Shareholders' meetings provide an opportunity for communication between the Board and the Shareholders. Board members and senior staff will be available to answer questions raised by the Shareholders at general meetings of the Company. In addition, the Company will invite representatives of the auditor to attend its AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence, if any.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

H. SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at Shareholders' meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company "www.ytoglobal.com" and the Stock Exchange after each Shareholders' meeting.

Pursuant to the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There is no provision allowing Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

With respect to the Shareholders' right in proposing persons for election as Directors, please refer to the procedures available on the website of the Company.

I. CONSTITUTIONAL DOCUMENTS

During the FY2018, the Company has amended the Articles to reflect the change of company name of the Company. Details of the amendments were set out in the Company's circular to Shareholders dated 22 January 2018. An up-to-date version of the Articles is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles for further details of the rights of Shareholders.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF YTO EXPRESS (INTERNATIONAL) HOLDINGS LIMITED
圓通速遞(國際)控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of YTO Express (International) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

KEY AUDIT MATTER (CONTINUED)

Key audit matter

Impairment assessment of trade receivables and contract assets

We identified impairment assessment of trade receivables and contract assets as a key audit matter due to the significance of trade receivables and contract assets to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables and contract assets at the end of the reporting period.

As at 31 December 2018, the Group's net trade receivables and contract assets amounting to HK$747,516,000 and HK$63,990,000, which represented approximately 59% and 5% of total assets of the Group respectively. As explained in note 2.2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" ("HKFRS 9") and recognised an additional impairment of HK$536,000 as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9.

As disclosed in notes 4 and 42 to the consolidated financial statements, management of the Group estimates the amount of lifetime ECL of trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar loss patterns. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables with significant balances or credit-impaired are assessed for ECL individually.

As disclosed in note 42 to the consolidated financial statements, the Group recognised an additional amount of HK$5,505,000 and reversed an amount of HK$6,929,000 of impairment of trade receivables for the year ended 31 December 2018 and the Group's lifetime ECL on trade receivables as at 31 December 2018 amounted to HK$6,566,000. No ECL was recognised for contract assets for the year ended 31 December 2018.

How our audit address the key audit matter

Our procedures in relation to impairment assessment of trade receivables and contract assets included:

- Understanding key controls on how management estimates the loss allowance for trade receivables and contract assets;
- Testing the accuracy of the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of HKFRS 9;
- Testing the integrity of information used by management to develop the provision matrix, including internal credit rating analysis of trade receivables and contract assets as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with reference to the past due records, payment records and other supporting documents;
- Assessing management's basis and judgement in determining allowance for credit losses on trade receivables and contract assets as at 1 January 2018 and 31 December 2018, including the reasonableness of management's grouping of the trade receivables and contract assets into different categories in the provision matrix, the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information), and their identification of credit-impaired trade receivables; and
- Testing subsequent settlements of credit-impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from these trade receivables.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Wong Kuen.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5	4,462,803	3,670,514
Cost of sales		(3,867,730)	(3,098,754)
Gross profit		595,073	571,760
Other income	7	24,529	9,962
Administrative expenses		(488,421)	(466,778)
Net reversal of impairment loss (impairment loss, net of reversal)	11	1,424	(9,032)
Other gains or losses	8	794	20,944
Share of results of associates		2,255	307
Share of results of joint ventures		661	1,076
Finance costs	9	(7,732)	(4,729)
Profit before taxation		128,583	123,510
Income tax expense	10	(22,880)	(22,525)
Profit for the year	11	105,703	100,985
Profit for the year attributable to:			
Owners of the Company		104,163	97,501
Non-controlling interests		1,540	3,484
		105,703	100,985
Earnings per share (Hong Kong cents)			
Basic	14	25.14	23.56
Diluted	14	25.14	23.51

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
Profit for the year		105,703	100,985
Other comprehensive (expense) income, net of income tax:			
Items that will not be reclassified to profit or loss			
Revaluation (decrease) increase on leasehold land and buildings		(352)	1,165
Deferred tax arising on revaluation of leasehold land and buildings	36	225	(156)
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive (expense) income of associates		(262)	293
Share of other comprehensive (expense) income of joint ventures		(255)	727
Exchange difference arising from foreign operations		(15,888)	10,390
Reclassification adjustment upon disposal of subsidiaries		–	202
Other comprehensive (expense) income for the year		(16,532)	12,621
Total comprehensive income for the year		89,171	113,606
Total comprehensive income for the year attributable to:			
Owners of the Company		86,922	105,850
Non-controlling interests		2,249	7,756
		89,171	113,606

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investment properties	15	6,742	7,531
Property, plant and equipment	16	41,252	49,203
Goodwill	17	35,024	36,453
Intangible assets	18	16,273	22,172
Interests in associates	19	15,575	15,257
Interests in joint ventures	20	6,660	6,254
Deferred tax assets	36	331	90
		121,857	136,960
Current assets			
Trade receivables	22	747,516	684,132
Other receivables, deposits and prepayments	22	59,782	138,252
Contract assets	23	63,990	–
Financial asset at fair value through profit or loss	24	901	1,017
Loan receivable	25	7,522	–
Amount due from immediate holding company	26	1,245	1,245
Amounts due from joint ventures	28	3,367	5,674
Amounts due from associates	27	10,902	11,584
Amount due from a related company	29	243	–
Loan to an associate	27	500	500
Prepaid tax		1,161	1,310
Pledged bank deposits	30	7,548	8,472
Bank balances and cash	30	240,733	248,201
		1,145,410	1,100,387
Current liabilities			
Trade and other payables	31	441,439	467,268
Financial liabilities at fair value through profit or loss	32	2,725	6,632
Amounts due to associates	27	4,092	1,723
Amounts due to fellow subsidiaries	26	23,272	–
Amount due to a related company	29	31	–
Tax liabilities		8,202	10,090
Obligations under finance leases – due within one year	33	173	357
Bank borrowings	34	189,041	179,770
		668,975	665,840
Net current assets		476,435	434,547
Total assets less current liabilities		598,292	571,507

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Other payables due after one year	31	2,919	3,153
Financial liabilities at fair value through profit or loss	32	2,022	–
Obligations under finance leases – due after one year	33	74	291
Deferred tax liabilities	36	10,970	14,324
		15,985	17,768
		582,307	553,739
Capital and reserves			
Share capital	37	41,427	41,427
Reserves		534,694	485,571
Net assets attributable to owners of the Company		576,121	526,998
Non-controlling interests	38	6,186	26,741
Total equity		582,307	553,739

The consolidated financial statements on pages 49 to 143 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Mr. Lam Chun Chin, Spencer	**Mr. Li Xianjun**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company												
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Capital reserve** *HK$'000*	**Special reserve** *HK$'000* *(Note b)*	**Share options/ awards reserve** *HK$'000*	**Other reserve** *HK$'000* *(Note c)*	**Translation reserve** *HK$'000*	**Statutory reserve** *HK$'000* *(Note d)*	**Property revaluation reserve** *HK$'000*	**Retained profits** *HK$'000*	**Sub-total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total** *HK$'000*
At 1 January 2017	41,280	418,048	(843)	(295,411)	1,090	(705)	(28,459)	9,540	10,359	280,040	434,939	27,701	462,640
Profit for the year	–	–	–	–	–	–	–	–	–	97,501	97,501	3,484	100,985
Revaluation increase on leasehold land and buildings	–	–	–	–	–	–	–	–	1,165	–	1,165	–	1,165
Deferred tax arising on revaluation of leasehold land and buildings	–	–	–	–	–	–	–	–	(156)	–	(156)	–	(156)
Share of other comprehensive income of associates	–	–	–	–	–	–	293	–	–	–	293	–	293
Share of other comprehensive income of joint ventures	–	–	–	–	–	–	727	–	–	–	727	–	727
Exchange difference arising from foreign operations	–	–	–	–	–	–	6,118	–	–	–	6,118	4,272	10,390
Reclassification adjustment upon disposal of subsidiaries	–	–	–	–	–	–	202	–	–	–	202	–	202
Total comprehensive income for the year	–	–	–	–	–	–	7,340	–	1,009	97,501	105,850	7,756	113,606
Issue of shares upon exercise of share options	147	2,868	–	–	(596)	–	–	–	–	–	2,419	–	2,419
Recognition of equity-settled share-based payment	–	–	–	–	40	–	–	–	–	–	40	–	40
Cancellation of share options	–	–	–	–	(534)	–	–	–	–	534	–	–	–
Acquisition of additional interest in a subsidiary from a non-controlling shareholder *(note a)*	–	–	(136)	–	–	–	–	–	–	–	(136)	(2,183)	(2,319)
Disposals of subsidiaries *(note 40)*	–	–	208	–	–	–	–	–	–	–	208	(3,118)	(2,910)
Derecognition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(1,857)	(1,857)
Dividends paid to shareholders *(note 13)*	–	–	–	–	–	–	–	–	–	(16,322)	(16,322)	–	(16,322)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(1,558)	(1,558)
Transfer to statutory reserve	–	–	–	–	–	–	–	3,484	–	(3,484)	–	–	–
At 31 December 2017	41,427	420,916	(771)	(295,411)	–	(705)	(21,119)	13,024	11,368	358,269	526,998	26,741	553,739

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company													
	Share capital *HK$'000*	Share premium *HK$'000*	Treasury stock *HK$'000*	Capital reserve *HK$'000*	Special reserve *HK$'000* *(Note b)*	Share options/ awards reserve *HK$'000*	Other reserve *HK$'000* *(Note c)*	Translation reserve *HK$'000*	Statutory reserve *HK$'000* *(Note d)*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 31 December 2017	41,427	420,916	–	(771)	(295,411)	–	(705)	(21,119)	13,024	11,368	358,269	526,998	26,741	553,739
HKFRS 9 adjustment	–	–	–	–	–	–	–	–	–	–	(536)	(536)	–	(536)
At 1 January 2018 (adjusted)	41,427	420,916	–	(771)	(295,411)	–	(705)	(21,119)	13,024	11,368	357,733	526,462	26,741	553,203
Profit for the year	–	–	–	–	–	–	–	–	–	–	104,163	104,163	1,540	105,703
Revaluation decrease on leasehold land and buildings	–	–	–	–	–	–	–	–	–	(352)	–	(352)	–	(352)
Deferred tax arising on revaluation of leasehold land and buildings	–	–	–	–	–	–	–	–	–	225	–	225	–	225
Share of other comprehensive expense of associates	–	–	–	–	–	–	–	(262)	–	–	–	(262)	–	(262)
Share of other comprehensive expense of joint ventures	–	–	–	–	–	–	–	(255)	–	–	–	(255)	–	(255)
Exchange difference arising from foreign operations	–	–	–	–	–	–	–	(16,597)	–	–	–	(16,597)	709	(15,888)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	(17,114)	–	(127)	104,163	86,922	2,249	89,171
Treasury stock addition *(note 46)*	–	–	(6,563)	–	–	–	–	–	–	–	–	(6,563)	–	(6,563)
Recognition of equity-settled share-based payment *(note 46)*	–	–	–	–	–	738	–	–	–	–	–	738	–	738
Acquisition of additional interest in a subsidiary from a non-controlling shareholder *(note e)*	–	–	–	(21,910)	–	–	–	–	–	–	–	(21,910)	(16,090)	(38,000)
Dividends paid to shareholders *(note 13)*	–	–	–	–	–	–	–	–	–	–	(9,528)	(9,528)	–	(9,528)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(6,714)	(6,714)
Transfer to statutory reserve	–	–	–	–	–	–	–	–	2,395	–	(2,395)	–	–	–
Transfer to retained profits *(note c)*	–	–	–	–	–	–	705	–	–	–	(705)	–	–	–
At 31 December 2018	41,427	420,916	(6,563)	(22,681)	(295,411)	738	–	(38,233)	15,419	11,241	449,268	576,121	6,186	582,307

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Notes:

(a) On 10 July 2017, the Group acquired additional 20% equity interest in OTX Solutions B.V. ("OTX Solutions Holland") at a consideration amounting to Euro ("EUR") 261,500 (equivalent to HK$2,319,000) from its non-controlling shareholder, resulting in EUR 15,330 (equivalent to HK$136,000) debit balance recognised in capital reserve.

(b) Special reserve comprises (i) the difference between the nominal amount of 500,000 shares of the Company amounting to HK$50,000 as consideration in exchange for the paid up capital of On Time Worldwide Logistics Limited ("OT BVI") amounting to HK$389,000 after elimination of share premium amounting to HK$241,000 as part of the corporate reorganisation in year ended 31 December 2013 and (ii) the difference between the aggregate net assets value of Citynet Logistics Worldwide Limited ("Citynet"), On Time Worldwide Logistics Limited ("OT WW HK"), On Time Shipping Line Limited ("OT SL HK"), On Union Management Limited ("On Union HK") and On Time Express Limited ("OT HK") amounting to HK$316,029,000 and the aggregate share capital of Citynet, OT WW HK, OT SL HK, OT Union HK and OT HK amounting to HK$20,520,000 as at 31 March 2014 on which the Company acquired the entire equity interest in Citynet, OT WW HK, OT SL HK, OT Union HK and OT HK by issue of 400,000 shares at HK$0.1 each upon corporate reorganisation.

(c) The non-controlling interests at 1 January 2013 included the fair value of options classified as equity instruments amounting to HK$705,000, which were related to the options granted to a group entity and a non-controlling shareholder of OTX Logistics B.V. ("OTX Logistics Holland") on disposal of 25% equity interest in OTX Logistics Holland in 2011. As the condition precedent the exercise of these options was not materialised upon the listing of the Company on 11 July 2014, the amount was reclassified to other reserve. The aforesaid options have been cancelled on 1 December 2017. During the year ended 31 December 2018, the amount was transferred to retained profits since OTX Logistics Holland became a wholly-owned subsidiary of the Company.

(d) Statutory reserve represents general and development fund reserve required in accordance with the laws and regulations in the relevant jurisdictions, including the People's Republic of China (the "PRC"), the Netherlands and Thailand.

(e) On 16 April 2018, the Group acquired additional 25% equity interest in OTX Logistics Holland at a consideration amounting to HK$38,000,000 from its non-controlling shareholder resulting in HK$21,910,000 debit balance recognised in capital reserve. OTX Logistics Holland is an indirect wholly owned subsidiary of the Company upon completion of the acquisition.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
Profit before taxation		128,583	123,510
Adjustments for:			
Interest income		(1,004)	(486)
Finance costs		7,732	4,729
Share of results of associates		(2,255)	(307)
Share of results of joint ventures		(661)	(1,076)
Depreciation of property, plant and equipment		11,562	11,279
Amortisation of intangible assets		5,395	3,930
Loss on disposal of property, plant and equipment		1,093	527
(Net reversal of impairment loss) impairment loss, net of reversal		(1,424)	9,032
Fair value change of financial asset at fair value through profit or loss		116	(22)
Fair value changes of financial liabilities at fair value through profit or loss		1,115	–
Share-based payment		738	40
Fair value changes of investment properties		457	239
Write down of long outstanding payable		(2,827)	(494)
Gain on disposals of subsidiaries		–	(20,114)
Operating cash flows before movements in working capital		148,620	130,787
Increase in trade receivables		(75,010)	(177,783)
Decrease in contract assets		5,779	–
Increase in other receivables, deposits and prepayments		(3,208)	(42,453)
Decrease in amounts due from joint ventures		1,854	8,656
Decrease in amounts due from associates		368	2,968
Increase in amount due from a related company		(243)	–
(Decrease) increase in trade and other payables		(11,693)	125,417
Increase (decrease) in amounts due to associates		1,527	(3,055)
Increase in amounts due to fellow subsidiaries		23,272	–
Cash generated from operations		91,266	44,537
Income tax paid		(27,412)	(12,315)
Net cash from operating activities		63,854	32,222
Investing activities			
Interest received		912	486
Net cash outflow on acquisitions of subsidiaries	39	–	(14,324)
Net cash inflow(outflow) on disposals of subsidiaries	40	9,239	(8,149)
Purchase of property, plant and equipment		(7,463)	(8,581)
Proceeds from disposal of property, plant and equipment		849	13
Advance to a related company		–	(1,245)
Repayment from associates		1,156	479
Repayment from joint ventures		278	3,686
Repayment from a related company		–	6
Additions of intangible assets		(42)	(2,101)
Withdrawal of pledged bank deposits		7,663	77
Placement of pledged bank deposits		(6,767)	(96)
Payment for investment in a joint venture		–	(66)
Payments for contingent considerations		(3,000)	–
Proceed from disposal of available-for-sale investment		–	16,703
Investment in loan receivable		(7,430)	–
Dividend from an associate		1,675	–
Net cash used in investing activities		(2,930)	(13,112)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 *HK$'000*	2017 *HK$'000*
Financing activities			
Increase in bank overdrafts		698	319
Advance from a joint venture		175	–
Advance from a related party		31	–
(Decrease) increase in factoring loans		(21,052)	879
Interests paid		(7,732)	(4,729)
New bank loans obtained		488,161	354,430
Repayment of bank loans		(458,536)	(321,258)
Dividends paid to non-controlling interests		(6,714)	(1,558)
Dividends paid	*13*	(9,528)	(16,322)
Repayments of obligations under finance leases		(400)	(550)
Payment for additional interests in a subsidiary		(38,000)	(2,319)
Proceeds from issuance of new shares		–	2,419
Payment for transactions attributable to repurchase of ordinary shares		(6,563)	–
Net cash (used in) from financing activities		(59,460)	11,311
Net increase in cash and cash equivalents		1,464	30,421
Cash and cash equivalents at the beginning of the year		248,201	211,207
Effect of foreign exchange rate changes		(8,932)	6,573
Cash and cash equivalents at the end of the year		240,733	248,201
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		240,733	248,201

1. GENERAL

YTO Express (International) Holdings Limited (the "Company") was incorporated and registered as an exempted company with limited liability under the Companies Law in the Cayman Islands on 6 March 2013 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2014. The ultimate holding company of the Company is Shanghai Yuantong Jiaolong Investment Development (Group) Co., Ltd., a company incorporated in the PRC. The intermediate holding company of the Company is YTO Express Group Co., Ltd., a joint stock limited liability company incorporated in the PRC with its shares listed on the Shanghai Stock Exchange. The immediate holding company of the Company is YTO Global Holdings Limited, a limited liability company incorporated in Hong Kong. The addresses of the registered office and the principle place of business of the Company are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Unit 18, 1st Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Hong Kong respectively.

The Company acts as an investment holding company. The principal activities of associates, joint ventures and subsidiaries are set out in notes 19, 20 and 50 respectively.

The consolidated financial statements are presented in Hong Kong dollar ("HK$"), which is the same as the functional currency of the Company.

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

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

The Group had applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year.

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

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

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

2.1 HKFRS 15 "Revenue from Contracts with Customers"

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations. HKFRS 15 applies to all contracts with customers except for leases which are within the scope of HKAS 17 "Leases".

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

- Freight services: revenue from freight services is recognised over time upon the performance obligation is satisfied.
- Logistic services: revenue from logistic services is recognised over time for warehousing services.
- International express and parcel services: revenue from international express and parcel services is recognised over time for time-define international express and parcel services.
- Other services: revenue from other services is recognised over time for land and trucking services.

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

Summary of effects arising from initial application of HKFRS 15

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

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*
Current assets			
Other receivables, deposits and prepayments *(Note)*	138,252	(69,769)	68,483
Contract assets *(Note)*	–	69,769	69,769

Note: At the date of initial application, unbilled revenue of HK$69,769,000 arising from contracts with customers are conditional, and hence such balance was reclassified from other receivables, deposits and prepayments to contract assets.

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

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

2.1 HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Impact on the consolidated statement of financial position

	As reported	Reclassification	Amounts without application of HKFRS 15
	HK$	*HK$*	*HK$*
Current assets			
Other receivables, deposits and prepayments *(Note)*	59,782	63,990	123,772
Contract assets *(Note)*	63,990	(63,990)	–

Note: Under HKAS 18, unbilled revenue of HK$63,990,000 arising from contracts with customers would have been included in other receivables, deposits and prepayments.

Impact on consolidated statement of cash flows

	As reported	Reclassification	Amounts without application of HKFRS 15
	HK$	*HK$*	*HK$*
Operating activities			
Decrease in contract assets	5,779	(5,779)	–
(Increase) decrease in other receivables, deposits and prepayments	(3,208)	5,779	2,571

2.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and other items (including contract assets and loan receivable) and (3) general hedge accounting.

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

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

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

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

2.2 HKFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below summarises the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	Trade receivables *HK$'000*	Retained profits *HK$'000*
Closing balance at 31 December 2017 – HKAS 39		684,132	358,269
Effect arising from initial application of HKFRS 9:			
Remeasurement			
Impairment under ECL model	*(a)*	(536)	(536)
Opening balance at 1 January 2018		683,596	357,733

Note (a): Impairment under ECL model

The Group applies HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. To measure the ECL, all contract assets and trade receivables have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled revenue and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis. In addition, trade receivables and contract assets with significant balances or credit-impaired are assessed for ECL individually.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, loan receivable, amounts due from and loan to related parties, pledged bank deposits and bank balances and cash, are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition. Other receivables, amounts due from and loan to related parties are assessed for expected credit losses on an individual basis.

As at 1 January 2018, the additional credit loss allowance of HK$536,000 has been recognised against retained profits. The additional loss allowance is charged against the respective assets. As at 31 December 2017, the loss allowance for loans and receivables amounted to HK$10,242,000 under HKAS 39. With the aforesaid additional credit loss allowance of HK$536,000, the loss allowance for trade receivables as at 1 January 2018 amounted to HK$10,778,000 under HKFRS 9.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
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]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

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

HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted for as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, unless the right-of-use assets meet the definition of investment property under HKAS 40 or relates to a class of property, plant and equipment to which the revaluation model is applied, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presents as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

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

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

HKFRS 16 "Leases" (Continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$116,483,000 as disclosed in note 45. A preliminary assessment indicated that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group considers refundable rental deposits paid of HK$13,536,000 and refundable rental deposits received of HK$1,262,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-to-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. Upon application of HKFRS 16, the directors of the Company will consider the measurement model to be the Group's leases under HKFRS 16, specifically, the potential election of revaluation model to certain right-of-use assets that relate to the class of property, plant and equipment in which the Group currently applies revaluation model. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) - Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Except as mentioned above, the directors of the Company do not anticipate that the application of all other new and amendments to HKFRSs issued but not yet effective will have a material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for investment properties, certain property, plant and equipment and certain financial instruments that are measured at fair values or revalued amounts as explained in the accounting policies set out below.

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (Continued)

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

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

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

Merger accounting for business combination involving entities under common control

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

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position. For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit, the amount of goodwill disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates and joint ventures

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

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

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds its interest in that associate or joint venture (which included any long-term interest that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Except for management fee and information technology ("IT") service fee income, all revenue are derived from the Group's ordinary course of business. Management fee and IT service fee income are recognised over time by the Group's performance as the Group performs and included in other income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related tax.

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

Freight services income is recognised when services are rendered, the revenue from outbound services is recognised when the cargos are delivered to the carriers, and the revenue from inbound services is recognised upon the arrival of cargos.

Logistics services income is recognised when the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Management fee and IT service fee income are recognised when services are rendered. Income from trademarks is recognised on a straight-line basis over the terms of the relevant agreement.

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

Property, plant and equipment

Property, plant and equipment, other than leasehold land (classified as finance lease) and buildings, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses if any.

Leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated financial statements at their fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any revaluation increase arising on the revaluation of leasehold land and buildings is recognised in other comprehensive income and accumulated in the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of such leasehold land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued land and building is recognised in profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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

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

Investment properties

Investment property is property held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

Internally-generated intangible assets

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on tangible and intangible assets other than goodwill

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

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Financial instruments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

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

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

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

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

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

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

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

(i) Amortised cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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

(ii) Equity instruments designated as at FVTOCI

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

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

(iii) Financial assets at FVTPL

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

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

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

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including contract assets, trade receivables, loan receivable, amounts due from immediate holding company, joint ventures, associates, a related company and fellow subsidiaries, loan to an associate, pledged bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for contract assets and trade receivables. To measure the ECL, contract assets and trade receivables have been group based on shared credit risk characteristics respectively. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECL individually.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade receivables are assessed as a separate group. Other receivables, amounts due from and loan to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

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

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, available-for-sale investment, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets is held for trading. A financial asset is classified as held for trading if:

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

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

Available-for-sale investment

Available-for-sale investment are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as available-for-sale investment and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investment are recognised in profit or loss. Other changes in the carrying amount of available-for-sale investment are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment of financial assets below).

Dividends on available-for-sale equity instrument are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment of financial assets below).

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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

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

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

For available-for-sale investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contacts, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

In respect of available-for-sale equity investment, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition of financial assets

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amounts due to fellow subsidiaries, associates and a related company and bank borrowings) are subsequently measured at amortised cost using effective interest method.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading (ii) it is designated as at FTVPL or (iii) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies.

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment arrangements

Share award plan

For grants of share awards that are conditional upon satisfying specified vesting conditions, the fair value of service received is determined by reference to the fair value of shares awards granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options/awards reserve).

At the end of each reporting period, the Group revises its estimates of the number of share awards that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options/awards reserve.

When share awards are vested, the amount previously recognised in share options/awards reserve and the amount of the relevant treasury stocks will be transferred to retained profits.

Share option scheme

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options/awards reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options/awards reserve.

When share options are exercised, the amount previously recognised in share options/awards reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options/awards reserve will be transferred to retained profits.

Leases

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss and included in other income on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Leasehold land and building

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

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

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

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

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are determining using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model which objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. Deferred taxation on fair value gain on investment properties is calculated at the Enterprise Income Tax ("EIT") rate in the PRC of 25%.

Principal versus agent consideration

The Group engages in provision of freight forwarding services. Upon application of HKFRS 15, the Group reassessed whether the Group should continue to recognise revenue on gross basis based on the requirements in HKFRS 15. The Group concludes that the Group acts as the principal for such transactions as it controls the service before the service is transferred to a customer taking into consideration indicator that the Group is primarily responsible for fulfilling the promise to provide the services.

Key sources of estimation uncertainty

The following are 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.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount which is the higher of fair value less cost of disposal and value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from each cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill was HK$35,024,000 (2017: HK$36,453,000). Details are disclosed in note 17.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Useful lives of customer lists and trademarks

Amortisation is provided to write off the cost of customer lists and trademarks included in intangible assets over their estimated useful lives which are determined by the Group. The carrying amount of customer lists and trademarks as at 31 December 2018 were HK$9,224,000 (2017: HK$13,649,000) and HK$5,103,000 (2017: HK$6,038,000) respectively. In applying the accounting policy on these intangible assets with respect to amortisation, the directors of the Company estimate the useful life of customer lists and trademarks according to the industrial experiences over the revenue expectation and also by reference to the relevant industrial norm. Should the useful lives of these assets differ from that previously estimated, the calculation of amortisation would be affected.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The directors of the Company have to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The directors of the Company work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair values of certain properties and certain types of financial instruments. Notes 15, 16, 24, 32 and 42 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Estimated impairment of trade receivables and contract assets

Before application of HKFRS 9 in accordance with transitions in note 2, the Group makes impairment losses on trade receivables and unbilled trade receivables based on the assessments of the recoverability of the outstanding balances. Impairment losses are applied to trade receivables and unbilled trade receivables where events or changes in circumstances indicate that the balances may not be collectible or recoverable. The identification of impairment losses require the estimation of future cash flows. Management has taken into consideration the overdue balances, previous history and ageing of trade receivables. Where the expectations of the recoverability of the trade receivables and unbilled trade receivables is different from the original estimate, such difference will impact the carrying values of the trade receivables and unbilled trade receivables and impairment losses recognised in profit or loss in the year in which such estimate has changed.

Upon application of HKFRS 9 in accordance with transitions in note 2, the Group uses provision matrix to calculate ECL for trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At the end of the reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit-impaired are assessed for ECl individually.

The provision of ECL is sensitive to changes in estimates. Information about ECL on the Group's trade receivables and contract assets is disclosed in note 42.

5. REVENUE

Revenue represents freight forwarding and related services income which is recognised over time as customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group's revenue is recognised using output method over the period of performance by delivering a shipment from a place of origin to a place of destination. The performance obligation is satisfied upon delivery at destination. Details of disaggregation of revenue are set out in note 6.

Payment of the transaction price is generally due within 30 days. All services are for periods of less than one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the executive directors of the Company) in order to allocate resources to the segment and to assess its performance.

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on five (2017: four) main operations. During the year, the Group expanded the business in international express and parcel segment and it is considered as a new operating and reportable segment by the chief operating decision maker. The Group reorganised its internal reporting structure which resulted in changes to composition of its reportable segments. Included in revenue and segment results for the year ended 31 December 2017 in air freight segment are HK$103,451,000 and HK$2,145,000 reallocated to international express and parcel segment respectively. Prior year segment disclosures have been represented to conform with the current year's presentation.

Air freight:	this segment is related to freight forwarding by air.
Ocean freight:	this segment is related to freight forwarding by seas.
Logistics:	this segment is related to provision of warehousing services.
International express and parcel:	this segment is related to provision of time-define international express and parcel services
Others:	this segment is related to freight forwarding by land and trucking services.

(a) Segment revenue and results

	Segment revenue		Segment results	
	2018	**2017**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Operating and reportable segments				
Air freight *(note i)*	3,129,295	2,458,171	235,173	229,511
Ocean freight *(note i)*	856,969	923,561	127,733	148,167
Logistics *(note ii)*	76,768	89,351	6,413	(24)
International express and parcel *(note iii)*	282,094	103,451	25,367	2,145
Others *(note iv)*	117,677	95,980	27,293	33,875
Total	4,462,803	3,670,514	421,979	413,674
Other income			24,529	9,962
Other gains or losses			794	20,944
Unallocated corporate expenses			(313,903)	(317,724)
Share of results of associates			2,255	307
Share of results of joint ventures			661	1,076
Finance costs			(7,732)	(4,729)
Profit before taxation			128,583	123,510

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results (Continued)

(i) Revenue from freight services, including air freight and ocean freight, is recognised over time upon the performance obligation is satisfied.

(ii) Revenue from logistic services is recognised over time for warehousing services.

(iii) Revenue from international express and parcel services is recognised over time for time-define international express and parcel services.

(iv) Other services is recognised over time for land and trucking services.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Reportable segment results represents the profit earned by each segment without allocation of other income, other gains or losses, share of results of associates, share of results of joint ventures, unallocated corporate expenses (including depreciation, amortisation and impairment, etc.) and finance costs.

(b) Segment assets and liabilities

No analysis of the Group's assets and liabilities by operating and reportable segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

(c) Geographical information

The Group's revenue by geographical market based on the location of operations:

	Revenue from external customers	
	2018	**2017**
	HK$'000	*HK$'000*
The PRC *(note i)*	3,070,373	2,323,264
Europe *(note ii)*	570,703	502,820
Northern America *(note iii)*	409,664	399,861
Other Asian regions *(note iv)*	412,063	444,569
	4,462,803	3,670,514

Information about the Group's non-current assets by geographical market based on location of assets:

	2018	**2017**
	HK$'000	*HK$'000*
The PRC *(note i)*	67,817	76,049
Europe *(note ii)*	27,892	32,595
Northern America *(note iii)*	1,041	3,467
Other Asian regions *(note iv)*	2,541	3,248
	99,291	115,359

6. SEGMENT INFORMATION (CONTINUED)

(c) Geographical information (Continued)

Notes:

(i) Included in the PRC segment are revenue from Hong Kong amounting to HK$1,969,379,000 (2017: HK$1,564,996,000) and non-current assets from Hong Kong amounting to HK$36,167,000 (2017: HK$41,310,000).

(ii) Included in Europe segment are revenue from the Netherlands amounting to HK$524,935,000 (2017: HK$467,235,000) and non-current assets from the Netherlands amounting to HK$27,842,000 (2017: HK$32,543,000).

(iii) Included in Northern America segment are revenue from the United States of America (the "USA") amounting to HK$365,455,000 (2017: HK$358,512,000) and non-current assets from the USA amounting to HK$1,041,000 (2017: HK$3,467,000).

(iv) Other Asian regions comprised countries which generated revenue or with non-current assets that is individually immaterial to the Group's revenue or assets.

(v) Non-current assets exclude interests in associates, interests in joint ventures, available-for-sale investment and deferred tax assets.

(d) Information about major customers

There was no customer who accounted for over 10% of the total revenue generated from the above segments during the year.

7. OTHER INCOME

	2018 *HK$'000*	**2017** *HK$'000*
Interest income on:		
– bank deposits	887	461
– loan to an associate	25	25
– loan receivable	92	–
Rental income	15,502	6,204
Management fee income	3,749	2,077
IT service income	345	410
Write down of long outstanding payables	2,827	494
Sundry income	1,102	291
Total	24,529	9,962

8. OTHER GAINS OR LOSSES

	2018 *HK$'000*	**2017** *HK$'000*
Gain on disposals of subsidiaries *(note 40)*	–	20,114
Fair value changes of financial liabilities at FVTPL *(note 32)*	(1,115)	–
Loss on disposal of property, plant and equipment	(1,093)	(527)
Fair value change of financial asset at FVTPL	(116)	22
Fair value changes of investment properties	(457)	(239)
Net foreign exchange gain	3,412	784
Others	163	790
	794	20,944

9. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interests on		
– bank borrowings	7,716	4,694
– obligations under finance leases	16	35
	7,732	4,729

10. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
– Hong Kong Profits Tax	4,008	4,091
– EIT in the PRC	6,621	7,551
– Dutch Corporate Income Tax	4,191	4,485
– Indian Corporate Income Tax	764	106
– Vietnam Corporate Income Tax	1,644	1,179
– Thailand Corporate Income Tax	229	30
– Malaysia Corporate Income Tax	1,620	902
– Canadian Corporate Income Tax	820	777
– Other jurisdictions	2,440	1,997
	22,337	21,118
Under(over) provision in respect of prior years		
– Hong Kong Profits Tax	(112)	(770)
– EIT in the PRC	(164)	(1)
– Other jurisdictions	421	(1,697)
	145	(2,468)
Withholding tax on dividend received	3,398	495
	25,880	19,145
Deferred taxation *(note 36)*	(3,000)	3,380
	22,880	22,525

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the PRC subsidiaries of the Group is taxed at 25% during both financial years.

Dutch Corporate Income Tax rates are progressive tax rates. The corporate income tax charge has been calculated at the tax rate between 20.0% to 25.0% during both financial years.

Indian Corporate Income Tax is taxable at different tax rates ranging from 0% to 30% depending on taxable income for the reporting year, in accordance with Indian Income Tax Act 1961 during both financial years.

10. INCOME TAX EXPENSE (CONTINUED)

The Corporate Income Tax in Vietnam is calculated at 20% of the estimated assessable profit. Additionally, being a small and medium enterprise, the Vietnamese subsidiary is entitled to a 30% reduction in Corporate Income Tax during both financial years, in accordance with the Vietnamese laws.

The Corporate Income Tax in Thailand is calculated at 20% of assessable profit during both financial years.

Malaysia Corporate Income Tax is calculated at 24% of the estimated assessable profit during both financial years.

Income tax expense in Canada comprises Federal Corporate Income Tax and Provincial Corporate Income Tax at 15% and 11.5% respectively during both financial years.

Pursuant to the rules and regulations of the British Virgin Islands (the "BVI") and the Cayman Islands, the Group is not subject to any income tax in the BVI and the Cayman Islands.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Details of the deferred taxation are set out in note 36.

Income tax expense for the year can be reconciled to the profit before taxation as follows:

	2018 *HK$'000*	**2017** *HK$'000*
Profit before taxation	128,583	123,510
Tax at the Hong Kong Profits Tax rate of 16.5% (2017: 16.5%)	21,216	20,379
Tax effect of expenses not deductible for tax purposes	4,228	3,471
Tax effect of income not taxable for tax purposes	(804)	(3,886)
Tax effect of share of results of associates	(372)	(51)
Tax effect of share of results of joint ventures	(109)	(177)
Effect on tax exemption granted	(30)	(19)
Tax effect of tax losses not recognised	1,202	703
Utilisation of tax losses previously not recognised	(2,070)	–
Under(over) provision in respect of prior year	145	(2,468)
Effect of different tax rates of group entities operating in jurisdictions other than Hong Kong	(2,424)	208
Withholding tax on undistributed earnings	(1,673)	4,042
Withholding tax upon dividend declared	3,398	495
Others	173	(172)
Income tax expense for the year	22,880	22,525

11. PROFIT FOR THE YEAR

	2018 *HK$'000*	2017 *HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration	5,953	4,532
Depreciation of property, plant and equipment	11,562	11,279
Amortisation of intangible assets (included in administrative expenses)	5,395	3,930
Allowance for credit losses on trade receivables recognised	5,505	10,976
Reversal of allowance for credit losses on trade receivables	(6,929)	(1,944)
	(1,424)	9,032
Operating lease rentals in respect of rented premises and motor vehicles	65,764	64,386
Staff costs		
Directors' emoluments *(note 12)*	2,165	10,345
Other staff costs		
Staff costs excluding retirement benefit contributions	276,085	254,513
Retirement benefit contributions	27,294	25,270
Share-based payment	738	31
Total staff costs	306,282	290,159
Gross rental income from investment properties	356	354
Less: outgoings incurred which did not generate rental income	(79)	(83)
	277	271

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's emoluments

Year ended 31 December 2018

Name of director	Directors' fees *HK$'000*	Basic salaries and allowances *HK$'000*	Director's quarter *HK$'000*	Retirement benefit contributions *HK$'000*	Total *HK$'000*
Executive directors					
Mr. Lam Chun Chin, Spencer ("Mr. Lam")	–	281	–	14	295
Mr. Li Xianjun	–	1,030	240	–	1,270
Non-executive directors					
Mr. Yu Huijiao	–	–	–	–	–
Mr. Su Xiufeng	–	–	–	–	–
Mr. Zhu Rui	–	–	–	–	–
Mr. Lin Kai	–	–	–	–	–
Independent non-executive directors					
Mr. Li Donghui	200	–	–	–	200
Mr. Xu Junmin	200	–	–	–	200
Mr. Chung Kwok Mo John	200	–	–	–	200
	600	1,311	240	14	2,165

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Directors' and chief executive's emoluments (Continued)

Year ended 31 December 2017

Name of director	Directors' fees	Basic salaries and allowances	Performance bonus *(note a)*	Share-based payment	Director's quarter	Retirement benefit contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors							
Mr. Lam	–	273	1,000	–	380	13	1,666
Mr. Li Xianjun *(note b)*	–	77	–	–	24	–	101
Mr. Hartmut Ludwig Haenisch ("Mr. Haenisch") *(note c)*	–	1,073	642	–	–	–	1,715
Ms. Cheung Ching Wa, Camy *(note c)*	–	1,022	642	–	–	16	1,680
Ms. Wong Pui Wah *(note c)*	–	943	641	9	–	17	1,610
Mr. Dennis Ronald de Wit *(note c)*	183	1,746	829	–	–	215	2,973
Non-executive directors							
Mr. Yu Huijiao *(note b)*	–	–	–	–	–	–	–
Mr. Su Xiufeng *(note b)*	–	–	–	–	–	–	–
Mr. Zhu Rui *(note b)*	–	–	–	–	–	–	–
Mr. Lin Kai *(note b)*	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Li Donghui *(note b)*	17	–	–	–	–	–	17
Mr. Xu Junmin *(note b)*	17	–	–	–	–	–	17
Mr. Chung Kwok Mo John *(note b)*	17	–	–	–	–	–	17
Mr. Ng Wai Hung *(note c)*	183	–	–	–	–	–	183
Mr. Poon Ka Lee, Barry *(note c)*	183	–	–	–	–	–	183
Mr. Wong See Ho *(note c)*	183	–	–	–	–	–	183
	783	5,134	3,754	9	404	261	10,345

Notes:

(a) The amounts are discretionary bonus which are determined based on individual performance.

(b) The director was appointed on 1 December 2017.

(c) The director was resigned on 1 December 2017.

Mr. Lam is also the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive officer.

The executive directors' emoluments shown above were for their services in connection with management of the affairs of the Company and the Group. The emoluments of the non-executive directors and independent non-executive directors shown above were for their services as directors of the Company.

Details of the Company's share option scheme and share award plan are set out in note 46 to the consolidated financial statements.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Directors' and chief executive's emoluments (Continued)

Five highest paid individuals

The five highest paid individuals did not include any director (2017: 5) whose emoluments were included in the disclosure above. The five highest paid individuals (2017: Nil) for the year ended 31 December 2018 are as follows:

	2018	**2017**
	HK$'000	*HK$'000*
Employees		
– basic salaries and allowances	7,249	–
– bonus	2,035	–
– share-based payment	110	–
– retirement benefit contributions	360	–
	9,754	–

Their emoluments were within the following bands:

	2018	**2017**
	No. of employees	No. of employees
HK$1,000,001 to HK$1,500,000	1	–
HK$1,500,001 to HK$2,000,000	3	–
HK$3,000,001 to HK$3,500,000	1	–

During the years ended 31 December 2018 and 31 December 2017, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments for both years.

13. DIVIDEND

	2018	**2017**
	HK$'000	*HK$'000*
Special dividend for the year ended 31 December 2017 HK3.94 cents per share	–	16,322
Final dividend for the year ended 31 December 2017 of HK2.3 cents (2016: nil) per share	9,528	–

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK3.8 cents (2017: HK2.3 cents) per share, in an aggregate amount of HK$15,742,000 (2017: HK$9,528,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	104,163	97,501
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	414,251,074	413,836,333
Effect of dilutive potential ordinary shares on share options	–	898,630
Weighted average number of ordinary shares for the purpose of diluted earnings per share	414,251,074	414,734,963

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the shares purchased under share award plan as details set out in note 46.

The computation of diluted earnings per share does not assume the exercise of the Company's share awards because the specified conditions set out under share award plan have not been satisfied as at 31 December 2018.

15. INVESTMENT PROPERTIES

	2018	2017
	HK$'000	*HK$'000*
At the beginning of the year	7,531	7,249
Fair value changes recognised in profit or loss	(457)	(239)
Exchange realignment	(332)	521
At the end of the year	6,742	7,531

The fair value of the Group's investment properties situated outside of Hong Kong at 31 December 2018 and 31 December 2017 have been arrived at on the basis of a valuation carried out on the respective dates by RHL Appraisal Limited, an independent qualified professional valuer not connected with the Group. The directors of RHL Appraisal Limited are members of the Hong Kong Institute of Surveyors, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values of the investment properties were determined by using the direct comparison approach with reference to the recent transaction prices for similar properties as available, adjusted for differences in the nature, location and conditions of the subject properties. There has been no change to the valuation technique during the year.

In estimating the fair value of the investment properties, the highest and best use of the investment properties is their current use. Key unobservable inputs used in valuing the investment properties were the property age, property size and property floor level of the investment properties. An increase in the property age would result in a decrease in the fair value measurement of the investment properties, and vice versa. An increase in adjusted transaction prices subject to property size and property floor level would result in an increase in the fair value measurement of the investment properties, and vice versa.

The fair value hierarchy of these investment properties is categorised into level 3 and there were no transfers into or out of Level 3 during the year.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Computer equipment *HK$'000*	Furniture and equipment *HK$'000*	Leasehold improvements *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST OR VALUATION						
At 1 January 2017	20,498	34,884	23,076	18,244	4,919	101,621
Additions	–	4,349	1,759	2,077	799	8,984
Revaluation	490	–	–	–	–	490
Acquisitions of subsidiaries *(note 39)*	–	125	53	–	–	178
Disposals	–	(549)	(434)	(1,207)	(245)	(2,435)
Disposals of subsidiaries *(note 40)*	–	(1,436)	(148)	(253)	(296)	(2,133)
Exchange realignment	1,474	1,340	1,527	392	168	4,901
At 31 December 2017	22,462	38,713	25,833	19,253	5,345	111,606
Additions	–	3,942	1,305	2,000	216	7,463
Revaluation	(1,028)	–	–	–	–	(1,028)
Disposals	–	(4,363)	(4,775)	(798)	(415)	(10,351)
Exchange realignment	(991)	(669)	(531)	(250)	(90)	(2,531)
At 31 December 2018	20,443	37,623	21,832	20,205	5,056	105,159
Comprising:						
31 December 2018						
At cost	–	37,623	21,832	20,205	5,056	84,716
At valuation	20,443	–	–	–	–	20,443
	20,443	37,623	21,832	20,205	5,056	105,159
Comprising:						
31 December 2017						
At cost	–	38,713	25,833	19,253	5,345	89,144
At valuation	22,462	–	–	–	–	22,462
	22,462	38,713	25,833	19,253	5,345	111,606
DEPRECIATION						
At 1 January 2017	–	23,509	14,072	11,758	3,698	53,037
Charge for the year	651	5,215	2,552	2,314	547	11,279
Elimination on revaluation	(675)	–	–	–	–	(675)
Disposals of subsidiaries *(note 40)*	–	(1,089)	(112)	(253)	(50)	(1,504)
Eliminated on disposals	–	(541)	(363)	(746)	(245)	(1,895)
Exchange realignment	24	833	969	220	115	2,161
At 31 December 2017	–	27,927	17,118	13,293	4,065	62,403
Charge for the year	702	4,486	2,849	3,101	424	11,562
Elimination on revaluation	(676)	–	–	–	–	(676)
Eliminated on disposals	–	(4,276)	(3,095)	(623)	(415)	(8,409)
Exchange realignment	(26)	(447)	(377)	(66)	(57)	(973)
At 31 December 2018	–	27,690	16,495	15,705	4,017	63,907
CARRYING VALUES						
At 31 December 2018	20,443	9,933	5,337	4,500	1,039	41,252
At 31 December 2017	22,462	10,786	8,715	5,960	1,280	49,203

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values at the following rates per annum:

Leasehold land and buildings	Over the term of the lease
Computer equipment	20% - 33$^{1}/_{3}$%
Furniture and equipment	20% - 33$^{1}/_{3}$%
Leasehold improvements	5 years or over the term of the lease if shorter
Motor vehicles	20%

Fair value measurement of the Group's leasehold land and buildings

The Group's leasehold land and buildings were valued on 31 December 2018 and 31 December 2017 by RHL Appraisal Limited, an independent qualified professional valuer not connected with the Group. The directors of RHL Appraisal Limited are members of the Hong Kong Institute of Surveyors, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values of the leasehold land and buildings were determined by using the direct comparison approach with reference to the recent transaction prices for similar properties as available adjusted for differences in the nature, location and conditions of the subject properties. There has been no change to the valuation technique during the year.

All leasehold land and buildings are situated in the Mainland China. As the cost of the leasehold land and buildings cannot be allocated reliably between the lease payments for the land portion and the cost of the building, leasehold land which classified as finance lease is included within the building element in property, plant and equipment.

In estimating the fair value of the leasehold land and buildings, the highest and best use of the leasehold land and buildings is their current use.

Key unobservable inputs used in valuing the leasehold land and buildings were the property age, property size and property floor level. An increase in the property age would result in a decrease in the fair value measurement of the leasehold land and buildings and vice versa. An increase in adjusted transaction prices subject to property size and property floor level would result in an increase in the fair value measurement of the investment properties, and vice versa.

The fair value hierarchy of these leasehold land and buildings is categorised into level 3 and there were no transfers into or out of Level 3 during the year.

If leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	2018	**2017**
	HK$'000	*HK$'000*
Cost	12,131	12,131
Accumulated depreciation	(3,151)	(2,805)
Carrying value	8,980	9,326

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The carrying values of property, plant and equipment at the end of the reporting period in respect of assets held under finance leases are:

	2018 *HK$'000*	2017 *HK$'000*
Motor vehicles	161	302
Furniture and equipment	293	533
	454	835

17. GOODWILL

	2018 *HK$'000*	2017 *HK$'000*
At the beginning of the year	36,453	13,770
Adjustment to fair value of assets acquired in prior year *(note)*	77	–
Additions *(note 39)*	–	19,454
Exchange realignment	(1,506)	3,229
At the end of the year	35,024	36,453

Note: Adjustment to goodwill subsequent to an acquisition

A valuation report was received upon completion of acquisition accounting in the current year indicating that the fair value of the intangible asset of 翼尊國際貨運代理(上海)有限公司 ("Best Loader Shanghai") at the date of acquisition was HK$3,798,000, which was HK$77,000 less than the original estimate.

The valuation of intangible asset was decreased by HK$77,000 at the date of acquisition. There was a corresponding increase in goodwill of HK$77,000. As at 1 January 2018, the following item is restated:

	Originally stated *HK$'000* *(note 36(b))*	Adjustment *HK$'000* *(note 18)*	Restated *HK$*
Intangible asset	3,875	(77)	3,798

Goodwill arose from the acquisitions of (i) OTX Logistics Holland and its subsidiaries ("OTX Logistics Holland Group") during the year ended 31 December 2011 which is engaged in the provision of freight forwarding services in The Netherlands and (ii) Best Loader Logistics Company Limited ("Best Loader HK") and Best Loader Shanghai during the year ended 31 December 2017 which are engaged in the provision of freight forwarding services in Hong Kong and the PRC, respectively.

The carrying value of goodwill with indefinite useful lives has been allocated to the cash generating units ("CGUs") of OTX Logistics Holland Group, Best Loader HK and Best Loader Shanghai at the amount of HK$15,251,000 (2017: HK$15,853,000), HK$145,000 (2017: HK$145,000) and HK$19,628,000 (2017: HK$20,455,000) respectively for impairment testing purpose.

The recoverable amount of the CGUs have been determined on the basis of value in use calculation. The value in use calculation uses cash flow projections approved by management of the Group which are based on recent financial budgets covering a 5-year period (2017: 5-year period) and pre-tax discount rates ranging from 15.44%-16.14% (2017: 14.20%-15.94%). Cash flows beyond the 5-year period have been extrapolated using zero growth rate. The key assumptions are budgeted gross margin based on the past performance and the Group's expectation for the market development. The directors of the Group believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGUs to exceed its recoverable amount.

18. INTANGIBLE ASSETS

	Computer system *HK$'000*	Customer lists *HK$'000*	Trademarks *HK$'000*	Total *HK$'000*
COST				
At 1 January 2017	333	21,729	9,350	31,412
Addition	2,101	–	–	2,101
Acquisitions of subsidiaries *(note 39)*	–	4,658	–	4,658
Exchange realignment	51	3,515	–	3,566
At 31 December 2017	2,485	29,902	9,350	41,737
Addition	42	–	–	42
Adjustment to fair value of asset acquired in prior year *(note 17)*	–	(77)	–	(77)
Exchange realignment	(94)	(1,127)	–	(1,221)
At 31 December 2018	2,433	28,698	9,350	40,481
AMORTISATION				
At 1 January 2017	–	11,381	2,377	13,758
Charge for the year	–	2,995	935	3,930
Exchange realignment	–	1,877	–	1,877
At 31 December 2017	–	16,253	3,312	19,565
Charge for the year	502	3,958	935	5,395
Exchange realignment	(15)	(737)	–	(752)
At 31 December 2018	487	19,474	4,247	24,208
CARRYING VALUES				
At 31 December 2018	1,946	9,224	5,103	16,273
At 31 December 2017	2,485	13,649	6,038	22,172

Intangible assets with finite useful lives represent the carrying amounts of the customer lists arising on the acquisition of OTX Logistics Holland Group, Best Loader HK and Best Loader Shanghai, and trademarks purchased from Mr. Lam. The costs of customer lists are amortised over the estimated useful lives of three to ten years, the costs of trademarks are amortised over the estimated useful lives of ten years and the costs of computer system are amortised over the estimated useful lives of five years.

Estimated useful lives of the customer lists and trademarks have been determined by management of the Company according to the industrial experiences over the revenue expectation and also by reference to the relevant industrial norm.

19. INTERESTS IN ASSOCIATES

	2018 *HK$'000*	2017 *HK$'000*
Cost of investments, unlisted	14,979	14,979
Share of post-acquisition profits and other comprehensive income, net of dividends received	1,044	726
Impairment loss recognised	(448)	(448)
	15,575	15,257

Particulars of associates at 31 December 2018 and 31 December 2017 are as follows:

Name of entity	Place/country of incorporation/ operation	Class of issued capital shares	Proportion of nominal value of interest held by the Company 2018	2017	Principal activities
Fashion Care Logistics B.V.	The Netherlands	Ordinary	33.3% *(note a)*	25%	Inactive
On Time Worldwide Logistics Limited ("OT Bangladesh")	Bangladesh	Ordinary	49%	49%	Provision of freight forwarding services
On Time Worldwide Logistics L.L.C. ("OT WW Dubai")	The United Arab Emirates	Ordinary	49%	49%	Provision of freight forwarding services
On Time Worldwide International Cargo Services L.L.C. ("OT Abu Dhabi")	The United Arab Emirates	Ordinary	49%	49%	Provision of freight forward services
VGL Hong Kong Limited ("VGL HK")	Hong Kong	Ordinary	50%	50%	Provision of freight forwarding services
威超國際貨運代理有限公司 ("VGL China")	The PRC	Registered	50%	50%	Provision of freight forwarding services
On Time Worldwide Logistics (Private) Limited ("OT Sri Lanka")	Sri Lanka	Ordinary	40%	40%	Provision of freight forwarding services
On Time Worldwide Logistics Ltd. ("OT Korea")	Korea	Ordinary	48%	48% *(note b)*	Provision of freight forwarding services
義烏市通碩國際貨運代理有限公司	The PRC	Registered	22.3% *(note c)*	–	Inactive

Notes:

(a) 33.3% of the equity interest of Fashion Care Logistics B.V. was held by OTX Logistics Holland. On 16 April 2018, 25% of the equity interest of OTX Logistics Holland was acquired by the Group. Following the acquisition, OTX Logistics Holland is the wholly-owned subsidiary and Fashion Care Logistics B.V. is owned as to 33.3% by the Group.

(b) On 1 November 2017, 3% of the equity interest of OT Korea was disposed by OT BVI to independent third party at a consideration of HK$842,000. OT Korea ceased to be a subsidiary of the Group and became an associate of the Group.

(c) 義烏市通碩國際貨運代理有限公司 was incorporated on 22 March 2018, Registered but unpaid capital of 義烏市通碩國際貨運代理有限公司 is RMB7,928,830, in which On Time Express Co, Ltd. ("OT China") has 22.3% equity interest.

19. INTERESTS IN ASSOCIATES (CONTINUED)

Aggregate financial information of associates that are not individually material:

	2018 *HK$'000*	**2017** *HK$'000*
The Group's share of results of associates	2,255	307
The Group's share of other comprehensive (expense) income	(262)	293
The Group's share of total comprehensive income	1,993	600
Aggregate carrying amount of the Group's interests in associates	15,575	15,257

Unrecognised share of losses of associates

	2018 *HK$'000*	**2017** *HK$'000*
The unrecognised share of losses of associates for the year	56	343
Reversal of unrecognised share of losses in previous years	(931)	–
Cumulative unrecognised share of losses of associates for the year	1,141	2,016

20. INTERESTS IN JOINT VENTURES

	2018 *HK$'000*	**2017** *HK$'000*
Cost of investments, unlisted	2,831	2,831
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,829	3,423
	6,660	6,254

20. INTERESTS IN JOINT VENTURES (CONTINUED)

Particulars of the joint ventures at 31 December 2018 and 31 December 2017 are as follows:

Name of entity	Place/country of incorporation/ operation	Class of issued capital shares	Proportion of nominal value of interest held by the Company 2018	2017	Principal activities
OTX Logistics Rotterdam B.V. ("OTX Rotterdam")	The Netherlands	Ordinary	50% *(note a)*	37.5%	Provision of freight forwarding services
On Time Compliance Services Limited ("OT Compliance HK")	Hong Kong	Ordinary	50%	50% *(note b)*	Inactive

Notes:

(a) 50% of the equity interest of OTX Rotterdam was held by OTX Logistics Holland. On 16 April 2018, 25% of the equity interest of OTX Logistics Holland was acquired by the Group. Following the acquisition, OTX Logistics Holland is the wholly-owned subsidiary and OTX Rotterdam is a 50% joint venture of the Group.

(b) On 1 February 2017, the Group acquired 50% of the issued share capital of OT Compliance HK at a consideration of HK$65,000.

Aggregate financial information of the joint ventures that are not individually material:

	2018 *HK$'000*	2017 *HK$'000*
The Group's share of results of joint ventures	661	1,076
The Group's share of other comprehensive (expense) income	(255)	727
The Group's share of total comprehensive income	406	1,803
Aggregate carrying amount of the Group's interests in joint ventures	6,660	6,254

21. EQUITY INSTRUMENT AT FVTOCI/AVAILABLE-FOR-SALE INVESTMENT

The unlisted equity securities represented 1% holding of the ordinary share in Blackon Lab Holdings Limited ("Blackon Lab"). Blackon Lab is incorporated in the BVI. At 1 January 2018, upon application of HKFRS 9, available-for-sale investment was reclassified as equity instrument at FVTOCI.

The investment had been fully impaired in prior years. During the year ended 31 December 2018, the investment has been written off upon its liquidation.

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	754,082	694,374
Less: allowance for credit losses	(6,566)	(10,242)
	747,516	684,132

As details set out in note 2.2, as at 1 January 2018, the additional credit loss allowance of HK$536,000 has been recognised against retained profits. The additional loss allowance is charged against trade receivables through the loss allowance account. With the aforesaid additional credit loss allowance of HK$536,000, trade receivables, net of allowance for credit losses, as at 1 January 2018 amounted to HK$683,596,000 under HKFRS 9.

The Group allows an average credit period of 30 days to its trade customers. The following is an ageing analysis of trade receivables net of allowance for credit losses, based on the invoice date, which approximates the respective revenue recognition dates, at the end of each reporting period:

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	421,085	381,884
31 – 60 days	219,799	196,239
61 – 90 days	66,437	87,617
91 – 180 days	29,428	15,081
Over 180 days	10,767	3,311
	747,516	684,132

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate amount of HK$326,431,000 which are past due. Out of the past due balances, HK$16,260,000 has been past due 90 days or more and is not considered as default based on payment history and long business relationship with those customers.

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in note 42.

As at 31 December 2017, the Group has not provided any allowance of doubtful debts for the following trade receivables which are past due but not impaired because management of the Group has considered that those receivables are recoverable based on the good payment record of the customers.

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

	2017
	HK$'000
Overdue	
0 – 30 days	196,239
31 – 60 days	87,617
61 – 150 days	15,081
Over 150 days	3,311
	302,248

As at 31 December 2017, in determining the recoverability of the trade receivables, the Group has considered any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. In addition, the Group has reviewed the recoverable amount of each individual trade receivable at the end of the reporting period and has considered to make impairment losses for irrecoverable amount, if necessary.

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

As at 31 December 2017, included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$10,242,000 which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

Movements in the allowance for doubtful debts on trade receivables are as follows:

	2017
	HK$'000
Balance at the beginning of the year	7,508
Impairment losses recognised	10,976
Reversal of impairment losses	(1,944)
Amounts written off	(6,702)
Disposals of subsidiaries	(317)
Exchange realignment	721
Balance at the end of the year	10,242

At the end of the reporting period, other receivables, deposits and prepayments are as follows:

	2018	**2017**
	HK$'000	*HK$'000*
Other deposits	24,059	18,339
Other receivables	2,909	87,940
Other tax receivables	3,626	4,834
Prepayments	15,652	17,969
Rental deposits	13,536	9,170
	59,782	138,252

As at 31 December 2017, included in other receivables are receivables relating to freight forwarding services performed but not yet billed to customers of HK$69,769,000). As details set out in note 2.1, as at 1 January 2018, unbilled revenue of HK$69,769,000 was reclassified from other receivables to contract assets. Details of contract assets are set out in note 23.

The following is an ageing analysis of unbilled trade receivables upon the progress of services as performed by the Group as at 31 December 2017:

	2017
	HK$'000
0 – 30 days	69,769

Details of impairment assessment of other receivables for the year ended 31 December 2018 are set out in note 42.

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

The trade and other receivables balances are denominated in the following currencies other than the functional currencies of respective group entities:

	2018	2017
	HK$'000	*HK$'000*
United States dollar ("US$")	283,879	234,220
Renminbi ("RMB")	16,030	23,372
Indonesian Rupiah ("IDR")	4,263	4,416
Canadian dollar ("CAD")	239	239

Transfers of financial assets

The followings are the Group's trade receivables as at 31 December 2018 and 31 December 2017 that were transferred to banks by factoring those trade receivables on a full recourse basis. As the Group has not transferred substantially all risks and rewards of the ownership of to these trade receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as secured factoring loans (see note 34).

These trade receivables are carried at amortised cost in the Group's consolidated statement of financial position.

	2018	2017
	HK$'000	*HK$'000*
Carrying amount of transferred assets	88,845	120,713
Carrying amount of associated liabilities	(75,518)	(96,570)
Net position	13,327	24,143

23. CONTRACT ASSETS

As details set out in note 2.1, as at 1 January 2018, unbilled revenue of HK$69,769,000 was reclassified from other receivables to contract assets.

As at 31 December 2018, the contract assets primarily relate to the Group's right to consideration for services preformed and not billed because the rights are conditional on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Details of impairment assessment of contract assets the year ended 31 December 2018 are set out in note 42.

24. FINANCIAL ASSET AT FVTPL

Financed asset at FVTPL represents the investment in a quoted investment fund which is denominated in US$. The fair value of the investment fund is determined based on to the quoted market bid price provided by the counterparty financial institution.

The balance is denominated in the following currency other than the functional currencies of respective group entities:

	2018	2017
	HK$'000	*HK$'000*
US$	901	1,017

25. LOAN RECEIVABLE

As at 31 December 2018, the Group held an unsecured bond with carrying amount of HK$7,522,000 (2017: Nil) denominated in US$ with nominal value at US$950,000 (2017: Nil). The unsecured bond bears a fixed interest rate at 1.33% (2017: Nil) per annum and will be matured on 25 January 2019.

Details of impairment assessment of loan receivable for the year ended 31 December 2018 are set out in note 42.

The balance is denominated in the following currency other than the functional currencies of respective group entities:

	2018	2017
	HK$'000	*HK$'000*
US$	7,522	–

26. AMOUNT(S) DUE FROM (TO) IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES

As at 31 December 2018 and 31 December 2017, the amount due from immediate holding company is non-trade related, unsecured, interest-free, and repayable on demand.

Details of impairment assessment of amounts due from immediate holding company for the year ended 31 December 2018 are set out in note 42.

As at 31 December 2018, amounts due to fellow subsidiaries are trade related, unsecured, interest-free and repayable on demand.

Amounts due to fellow subsidiaries are denominated in the following currency other than the functional currencies of respective group entities:

	2018	2017
	HK$'000	*HK$'000*
RMB	23,020	–

27. AMOUNT(S) DUE FROM (TO) ASSOCIATES/LOAN TO AN ASSOCIATE

As at 31 December 2018, other than set out below, amounts due from associates amounting to HK$8,302,000 (2017: HK$8,616,000) are non-trade related, unsecured, interest-free, and repayable on demand.

The Group allows average credit period of 30 days to its trade balances due from associates and the balances are unsecured and interest-free. The following is an ageing analysis of trade balances due from associates, based on the invoice date at the end of the reporting period:

	2018	**2017**
	HK$'000	*HK$'000*
0 – 30 days	38	607
31 – 60 days	107	392
61 – 90 days	–	176
91 – 180 days	1	272
Over 180 days	2,454	1,521
	2,600	2,968

Ageing of trade balances due from associates as at 31 December 2017 which are past due but not impaired:

	2017
	HK$'000
Overdue	
0 – 30 days	392
31 – 60 days	176
61 – 150 days	272
Over 150 days	1,521
	2,361

As at 31 December 2017, the Group has not provided any allowance of doubtful debts for the amounts due from associates as management of the Group considers that those receivables are recoverable based on the improving payment record of the associates.

27. AMOUNT(S) DUE FROM (TO) ASSOCIATES/LOAN TO AN ASSOCIATE (CONTINUED)

As at 31 December 2018, amounts due to associates comprise of (i) trade payables balance of HK$5,830,000 (2017: HK$4,303,000), and (ii) non-trade receivables balance of HK$1,738,000 (2017: HK$2,580,000) which are non-trade related, interest-free and repayable on demand.

The following is an ageing analysis of trade balances due to associates, based on the invoice date at the end of the reporting period:

	2018	**2017**
	HK$'000	*HK$'000*
0 – 30 days	3,495	4,041
31 – 60 days	2,049	91
61 – 90 days	25	77
91 – 180 days	195	61
Over 180 days	66	33
	5,830	4,303

The balances due from associates are denominated in the following currency other than the functional currencies of respective group entities:

	2018	**2017**
	HK$'000	*HK$'000*
US$	1,128	2,244

The balances due to an associate are denominated in the following currencies other than the functional currencies of respective group entities:

	2018	**2017**
	HK$'000	*HK$'000*
US$	14	–
EUR	–	194

As at 31 December 2018, the loan to an associate, VGL HK, amounting to HK$500,000 (2017: HK$500,000) is unsecured, repayable on demand and carries interest at 5% per annum.

The loan to an associate is denominated in the functional currency of the group entity.

Details of impairment assessment of amounts due from associates and loan to an associate for the year ended 31 December 2018 are set out in note 42.

28. AMOUNTS DUE FROM JOINT VENTURES

As at 31 December 2018, amounts due from joint ventures comprise of (i) trade receivables balance of HK$3,542,000 (2017: HK$5,396,000), and (ii) non-trade payables balance of HK$175,000 (2017: receivables of HK$278,000).

The Group allows average credit period of 30 days to its trade balances due from joint ventures and the balances are unsecured and interest-free. The following is an ageing analysis of trade balances due from joint ventures based on the invoice date which approximates the respective revenue recognition date, at the end of the reporting period:

	2018	**2017**
	HK$'000	*HK$'000*
0 – 30 days	2,494	3,373
31 – 60 days	868	1,097
61 – 90 days	170	771
91 – 180 days	–	135
Over 180 days	10	20
	3,542	5,396

Ageing of trade balances due from joint ventures as at 31 December 2017 which are past due but not impaired:

	2017
	HK$'000
Overdue	
0 – 30 days	1,097
31 – 60 days	771
61 – 150 days	135
Over 150 days	20
	2,023

As at 31 December 2017, the Group has not provided any allowance for doubtful debts for amounts due from joint ventures as management of the Group considers that those receivables are recoverable based on the good payment record of the joint ventures.

Details of impairment assessment of amounts due from joint ventures for the year ended 31 December 2018 are set out in note 42.

The balances due from joint ventures are denominated in the following currency other than the functional currencies of respective group entities:

	2018	**2017**
	HK$'000	*HK$'000*
US$	3,205	4,780

29. AMOUNTS DUE FROM (TO) RELATED COMPANIES

The balances due from (to) related companies controlled by directors disclosed pursuant to Hong Kong Companies Ordinance is as follows:

	2018	**2017**
	HK$'000	*HK$'000*
Amount due from a related company – trade and due within 30 days		
Polaris Expedite Trading, Inc. *(note 1)*	243	–

	2018	**2017**
	HK$'000	*HK$'000*
Amount due to a related company – non-trade and repayable on demand		
On Good Development Limited *(note 2)*	31	–

Note 1: A company in which Mr. Haenisch, a key management personnel of the Company, has a controlling interest.

Note 2: A company in which Mr. Lam, a director of the Company, has a controlling interest.

The balances are unsecured, interest-free and denominated in the functional currency of the group entity.

Details of impairment assessment of amount due from a related company for the year ended 31 December 2018 are set out in note 42.

30. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits of HK$7,548,000 (2017: HK$8,472,000) are pledged as securities in favour of banks facilities. The average effective interest rate of pledged bank deposits was 0.41% (2017: 1.11%) per annum as at 31 December 2018.

Bank balances as at 31 December 2018 carry interests at market rates which range from 0% to 6.5% (2017: 0% to 5.25%) per annum.

The Group's pledged bank deposits and bank balances and cash that are denominated in the following currencies other than the functional currencies of respective group entities are set out below:

	2018	**2017**
	HK$'000	*HK$'000*
US$	101,491	90,472
RMB	709	2,438
EUR	3,534	2,918
Singapore dollar ("SGD")	17	19
IDR	322	778
CAD	822	627
British pound Sterling ("GBP")	20	46

Details of impairment assessment of pledged bank deposits and bank balances for the year ended 31 December 2018 are set out in note 42.

31. TRADE AND OTHER PAYABLES

	2018 *HK$'000*	**2017** *HK$'000*
Trade payables	326,604	360,425
Other payables and other taxes payable	25,535	23,658
Accrued charges	85,109	77,338
Retirement benefits obligation	2,231	2,010
Deposit received and others	4,566	6,653
Advance from employees	313	337
	444,358	470,421
Analysed as:		
– current	441,439	467,268
– non-current	2,919	3,153
	444,358	470,421

The average credit period granted by suppliers is 30 days. Included in non-current other payables is mainly the retirement benefits obligations.

The following is an ageing analysis, based on invoice date, of trade payables at the end of the reporting period:

	2018 *HK$'000*	**2017** *HK$'000*
Within 60 days	297,873	337,776
61 – 180 days	21,603	16,573
181 – 365 days	3,833	2,172
1 – 2 years	3,295	3,904
	326,604	360,425

The balances are denominated in the following currencies other than the functional currencies of respective group entities:

	2018 *HK$'000*	**2017** *HK$'000*
US$	40,602	29,036
RMB	4,487	3,822
EUR	9,919	6,910
CAD	932	1,043
IDR	2,011	1,842
GBP	1,102	1,184
Malaysian Ringgit ("MYR")	3,020	1,751

32. FINANCIAL LIABILITIES AT FVTPL

Financial liabilities at FVTPL represent contingent considerations of business combinations. Included in contingent considerations are HK$474,000 (2017: HK$576,000) and HK$4,273,000 (2017: HK$6,056,000) for acquisitions of Best Loader HK on 16 June 2017 and Best Loader Shanghai on 17 July 2017 respectively. Subject to and upon the terms and conditions of sales and purchase agreements, the Group shall pay cash to the vendor up to the value of HK$800,000 if net assets values of Best Loader HK as at 31 December 2017, 2018 and 2019 reached HK$3,000,000, HK$4,700,000 and HK$7,100,000 respectively; the Group shall pay cash to the vendor up to the value of HK$7,200,000 if net assets values of Best Loader Shanghai as at 31 December 2017, 2018 and 2019 reached HK$3,500,000, HK$5,300,000 and HK$7,900,000 respectively.

Fair values of contingent considerations are determined by RHL Appraisal Limited, an independent qualified professional valuer, at the end of each reporting period. Details of valuations of contingent considerations are set out in note 42.

33. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2018	**2017**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	177	373	173	357
In more than one year but not more than two years	51	177	49	173
In more than two years but not more five years	29	124	25	118
	257	674	247	648
Less: future finance charges	(10)	(26)	–	–
Present value of lease obligations	247	648	247	648
Less: Amount due from settlement within one year (shown under current liabilities)			(173)	(357)
Amount due for settlement after one year			74	291

The Group has leased certain of its furniture and equipment and motor vehicles under finance leases. The average lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 1.06% to 6.38% (2017: 0.62% to 4.93%) per annum as at 31 December 2018.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

34. BANK BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Secured:		
– bank overdrafts	1,829	1,131
– bank loans	111,694	82,069
– factoring loans	75,518	96,570
	189,041	179,770

The borrowings are repayable:

	2018	2017
	HK$'000	*HK$'000*
Bank borrowings:		
Repayable within one year from the end of reporting period based on original repayment schedule that contain a repayment on demand clause	111,694	82,069
Repayable on demand	77,347	97,701
	189,041	179,770

The Group's bank borrowings carry interest variable to Hong Kong Interbank Offered Rate and London Interbank Offered Rate. As at 31 December 2018, the effective interest rates range from 3.05% to 6.54% (2017: 3.50% to 4.20%) per annum which expose the Group to cash flow interest rate risk.

The carrying amount of bank borrowings that is denominated in currency other than the functional currencies of the respective group entities is set out below:

	2018	2017
	HK$'000	*HK$'000*
US$	5	–

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	At 1 January 2018 *HK$'000*	New finance leases *HK$'000*	Exchange realignment *HK$'000*	Dividend declared *HK$'000*	Interest expense *HK$'000*	Financing cash flows *HK$'000*	At 31 December 2018 *HK$'000*
Bank overdrafts *(note 34)*	1,131	–	–	–	–	698	1,829
Bank loans *(note 34)*	82,069	–	–	–	–	29,625	111,694
– New bank loans obtained	–	–	–	–	–	488,161	–
– Repayment of bank loans	–	–	–	–	–	(458,536)	–
Factoring loans *(note 34)*	96,570	–	–	–	–	(21,052)	75,518
Amounts due to joint ventures *(note 28)*	–	–	–	–	–	175	175
Amount due to a related company *(note 29)*	–	–	–	–	–	31	31
Obligations under finance leases *(note 33)*	648	–	(1)	–	–	(400)	247
Interest payable	–	–	–	–	7,732	(7,732)	–
Dividend payable	–	–	–	9,528	–	(9,528)	–
Dividend payable to non-controlling interests	–	–	–	6,714	–	(6,714)	–

	At 1 January 2017 *HK$'000*	New finance leases *HK$'000*	Exchange realignment *HK$'000*	Dividend declared *HK$'000*	Interest expense *HK$'000*	Financing cash flows *HK$'000*	At 31 December 2017 *HK$'000*
Bank overdrafts *(note 34)*	812	–	–	–	–	319	1,131
Bank loans *(note 34)*	48,897	–	–	–	–	33,172	82,069
– New bank loans obtained	–	–	–	–	–	354,430	–
– Repayment of bank loans	–	–	–	–	–	(321,258)	–
Factoring loans *(note 34)*	95,691	–	–	–	–	879	96,570
Obligations under finance leases *(note 33)*	792	430	(24)	–	–	(550)	648
Interest payable	–	–	–	–	4,729	(4,729)	–
Dividend payable	–	–	–	16,322	–	(16,322)	–
Dividend payable to non-controlling interests	–	–	–	1,558	–	(1,558)	–

Note: The cash flows from bank overdrafts, factoring loans and obligations under finance leases make up the net amount of proceeds from borrowings, repayments of borrowings, finance charges of obligations under finance leases, interest payment and dividend payment in the consolidated statement of cash flows.

36. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Intangible assets	Revaluation of properties	Withholding tax on undistributed earnings	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	(332)	(2,638)	(2,933)	(6,952)	88	(12,767)
(Charge) credit to profit or loss	(147)	573	57	(4,042)	179	(3,380)
Charge to other comprehensive income	–	–	(156)	–	–	(156)
Acquisitions of subsidiaries *(note 39)*	(20)	–	–	–	–	(20)
Disposals of subsidiaries *(note 40)*	–	–	–	3,426	(189)	3,237
Exchange realignment	(11)	(365)	(209)	(575)	12	(1,148)
At 31 December 2017	(510)	(2,430)	(3,241)	(8,143)	90	(14,234)
Credit to profit or loss	389	603	119	1,673	216	3,000
Credit to other comprehensive expense	–	–	225	–	–	225
Exchange realignment	2	74	138	158	(2)	370
At 31 December 2018	(119)	(1,753)	(2,759)	(6,312)	304	(10,639)

36. DEFERRED TAXATION (CONTINUED)

For the presentation purposes on the consolidated statement of financial position, certain deferred tax assets (liabilities) have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018	**2017**
	HK$'000	*HK$'000*
Deferred tax assets	331	90
Deferred tax liabilities	(10,970)	(14,324)
	(10,639)	(14,234)

At 31 December 2018, the Group had unused tax losses of HK$40,605,000 (2017: HK$45,867,000), available to offset against future profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years:

	2018	**2017**
	HK$'000	*HK$'000*
2021	62	1,210
2026	26	–
2031	–	2,514
2032	623	4,378
2033	6,315	7,224
2034	1,647	1,884
2035	8,631	8,956
2036	1,545	1,542
Indefinite	21,756	18,159
	40,605	45,867

As at 31 December 2018, deferred tax liabilities have been recognised in respect of the aggregate amount of undistributed earnings of subsidiaries of HK$63,118,000 (2017: HK$72,347,000). As at 31 December 2018, the aggregate amount of undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK$11,779,000 (2017: HK$10,518,000). No liability has been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

37. SHARE CAPITAL

	Number of ordinary shares	Share capital
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2017	412,804,000	41,280
Exercise of share options	1,466,000	147
At 31 December 2017 and 31 December 2018	414,270,000	41,427

The shares issued rank pari passu with other shares in issue in all aspects.

38. NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Other comprehensive (expense) income allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018	2017	2018	2017	2018	2017
				HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTX Logistics Holland Group	The Netherlands	– *(note)*	25%	654	1,452	571	3,800	1,526	22,672
Individual immaterial subsidiaries with non-controlling interests				886	2,032	138	472	4,660	4,069
				1,540	3,484	709	4,272	6,186	26,741

Note: On 16 April 2018, the Group acquired additional 25% equity interest in OTX Logistics Holland. The non-controlling interests in OTX Logistics Holland Group as at 31 December 2018 represents 20% equity interest in OTX Solutions Holland, a 80% owned subsidiary of OTX Logistics Holland.

Summarised financial information in respect of these subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

38. NON-CONTROLLING INTERESTS (CONTINUED)

OTX Logistics Holland Group

	2018 *HK$'000*	**2017** *HK$'000*
Current assets	164,825	204,142
Non-current assets	34,487	38,785
Current liabilities	(161,809)	(168,646)
Non-current liabilities	(2,150)	(5,555)
Equity attributable to owners of the Company	33,827	46,054
Non-controlling interests	1,526	22,672
Revenue	532,589	477,539
Expenses	(518,272)	(471,294)
Profit for the year	14,317	6,245
Profit attributable to owners of the Company	13,663	4,793
Profit attributable to the non-controlling interests	654	1,452
Profit for the year	14,317	6,245
Other comprehensive (expense) income attributable to owners of the Company	(3,981)	11,890
Other comprehensive income attributable to the non-controlling interests	571	3,800
Other comprehensive (expense) income for the year	(3,410)	15,690
Total comprehensive income attributable to owners of the Company	9,682	16,683
Total comprehensive income attributable to the non-controlling interests	1,225	5,252
Total comprehensive income for the year	10,907	21,935
Dividends paid to non-controlling interest	(6,281)	–
Net cash inflow from operating activities	19,151	8,518
Net cash outflow from investing activities	(1,037)	(5,263)
Net cash outflow from financing activities	(23,892)	(414)
Net cash (outflow) inflow	(5,778)	2,841

39. ACQUISITIONS OF SUBSIDIARIES

(a) On 16 June 2017, the Group completed the acquisition of the entire issued share capital of Best Loader HK from Air Partner Logistics Company Limited, an independent third party, at a consideration of HK$3,000,000. This transaction has been accounted for as a business combination using acquisition accounting. Upon completion of the acquisition, Best Loader HK became an indirect wholly-owned subsidiary of the Company. Best Loader HK is primarily engaged in the freight forwarding business. As a result of the acquisition, the Group is expected to expand its capabilities in Hong Kong. Subject to and upon the terms and conditions of the sales and purchase agreement, the consideration of HK$3,000,000 includes contingent consideration of HK$800,000 to be determined based on the future financial performance of Best Loader HK. Management has determined that the fair value of the contingent consideration amounted to HK$576,000 as at 31 December 2017.

Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Intangible assets	783
Property, plant and equipment	170
Trade receivables	17,499
Other receivables, deposits and prepayments	1,776
Bank balances and cash	5,102
Trade and other payables	(22,566)
Tax liabilities	(113)
Deferred tax liabilities	(20)
Total	2,631
Goodwill arising on acquisition	145
Consideration	2,776
Consideration transferred:	
Cash	2,200
Contingent consideration payable	576
Total	2,776

The fair value of trade receivables at the date of acquisition amounted to HK$17,499,000. The gross contractual amounts of those trade receivables acquired amounted to HK$17,499,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows is not expected to be collected amounting to nil.

	HK$'000
Net cash inflow arising on acquisition:	
Consideration paid in cash	(2,200)
Bank balances and cash acquired	5,102
	2,902

Included in profit for the year ended 31 December 2017, was a profit of HK$4,248,000 attributable to the business combination of Best Loader HK. Revenue for the year ended 31 December 2017 included HK$100,547,000 generated from Best Loader HK.

39. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(a) (Continued)

If the above acquisition had been completed on 1 January 2017, the Group's total revenue for the year ended 31 December 2017 would have been HK$3,706,063,000, and profit for the year ended 31 December 2017 would have been HK$101,156,000. The pro forma information is for illustration purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

Acquisition-related costs amounting to HK$83,000, which had been excluded from the consideration transferred and had been recognised as expense for the year ended 31 December 2017, were included in administrative expenses.

(b) On 17 July 2017, the Group completed the acquisition of the entire issued share capital of Best Loader Shanghai from Air Partner Logistics Company Limited, an independent third party, at a consideration of HK$27,000,000. This transaction has been accounted for as a business combination using acquisition accounting. Upon completion of the acquisition, Best Loader Shanghai became an indirect wholly-owned subsidiary of the Company. Best Loader Shanghai is primarily engaged in the freight forwarding business. As a result of the acquisition, the Group is expected to expand its capabilities in the PRC. Subject to and upon the terms and conditions of the sales and purchase agreement, the consideration of HK$27,000,000 includes contingent consideration of HK$7,200,000 to be determined based on the future financial performance of Best Loader Shanghai. Management has determined that the fair value of the contingent consideration amounted to HK$6,056,000 as at 31 December 2017.

Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000 *(note)*
Intangible asset	3,875
Property, plant and equipment	8
Trade receivables	18,796
Other receivables, deposits and prepayments	1,300
Bank balances and cash	2,574
Trade and other payables	(20,000)
Tax liabilities	(6)
Total *(Note)*	6,547
Goodwill arising on acquisition	19,309
Consideration	25,856
Consideration transferred:	
Cash	19,800
Contingent consideration payable	6,056
Total	25,856

Note: The initial accounting for the above acquisition has been determined provisionally. The initial accounting for the business combination has not been completed because the valuation of intangible assets has not yet been received as at 31 December 2017.

The fair value of trade receivables at the date of acquisition amounted to HK$18,796,000. The gross contractual amounts of those trade receivables acquired amounted to HK$18,796,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows is not expected to be collected amounting to nil.

39. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(b) (Continued)

Goodwill arose in the acquisition of Best Loader Shanghai because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Best Loader Shanghai. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

	HK$'000
Net cash outflow arising on acquisition:	
Consideration paid in cash	(19,800)
Bank balances and cash acquired	2,574
	(17,226)

Included in profit for the year ended 31 December 2017, was a profit of HK$4,135,000 attributable to the business combination of Best Loader Shanghai. Revenue for the year ended 31 December 2017 included HK$65,753,000 generated from Best Loader Shanghai.

If the above acquisition had been completed on 1 January 2017, the Group's total revenue for the year ended 31 December 2017 would have been HK$3,695,442,000, and profit for the year 31 December 2017 would have been HK$101,452,000. The pro forma information was for illustration purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor was it intended to be a projection of future results.

Acquisition-related costs amounting to HK$136,000, which had been excluded from the consideration transferred and had been recognised as expense for the year 31 December 2017, were included in administrative expenses.

40. DISPOSALS OF SUBSIDIARIES

(a) On 20 October 2017, the Group disposed of 100% equity interest in OTWL – On Time Worldwide Logistics Ltd. 先達環球物流有限公司 ("OT Taiwan"), which is engaged in freight forwarding services in Taiwan to an independent third party for a consideration of HK$15,477,000.

(b) On 1 November 2017, the Group disposed of 3% equity interest in OT Korea, which is engaged in freight forwarding service in Korea, to an independent third party for a consideration of HK$842,000. The Group had ceased to have control over OT Korea as the Group has no ability to direct the relevant activities of OT Korea. After the disposal, the Group had significant influence over OT Korea which became an associate of the Group.

(c) On 31 October 2017, the Group disposed of 100% equity interest in Holicbuy Company Limited and its subsidiaries ("Holicbuy HK Group") to an independent third party for a consideration of HK$3,700,000.

An analysis of the net outflow of cash and cash equivalents in respect of the disposals of subsidiaries was as follows:

	HK$'000
Cash consideration	10,780
Cash and bank balances disposed of	(18,929)
Net outflow of cash and cash equivalents in respect of the disposals of subsidiaries	(8,149)

40. DISPOSALS OF SUBSIDIARIES (CONTINUED)

The net assets (liabilities) of the subsidiaries at the respective date of disposal were as follows:

	OT Taiwan	OT Korea	Holicbuy HK Group	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets (liabilities) disposed of:				
Property, plant and equipment	122	428	79	629
Deferred tax assets	89	114	–	203
Trade receivables	5,087	6,719	23	11,829
Other receivables, deposits and prepayments	239	946	569	1,754
Amounts due from the Group	3,016	1,145	–	4,161
Amounts due from associates and joint ventures	234	119	–	353
Pledged bank deposits	360	2,187	–	2,547
Bank balances and cash	12,164	6,329	436	18,929
Trade and other payables	(4,464)	(6,587)	(603)	(11,654)
Amounts due to the Group	(527)	(351)	(7,885)	(8,763)
Amounts due from associates and joint ventures	(3)	(27)	–	(30)
Tax liabilities	(187)	(251)	–	(438)
Deferred tax liabilities	(14)	–	–	(14)
	16,116	10,771	(7,381)	19,506
Gain on disposal is calculated as follows:				
Cash	7,738	842	2,200	10,780
Other receivables	7,739	–	1,500	9,239
Net (assets) liabilities of subsidiaries disposed of	(16,116)	(10,771)	7,381	(19,506)
Fair value of 48% retained interest in an associate	–	13,467	–	13,467
Non-controlling interests previously recognised	–	5,278	(2,160)	3,118
Translation reserve reclassified to profit or loss	334	(536)	–	(202)
Reversal of withholding tax on undistributed profits	2,553	873	–	3,426
Capital reserve related to acquisition of shares from non-controlling interests	–	–	(208)	(208)
	2,248	9,153	8,713	20,114
Satisfied by:				
Cash	7,738	842	2,200	10,780
Other receivables	7,739	–	1,500	9,239
	15,477	842	3,700	20,019

During the year ended 31 December 2017, net profit of HK$1,435,000 attributed by the disposed subsidiaries had been included in the Group's consolidated statement of profit or loss.

Other than the considerations received from the disposals of subsidiaries, the disposed subsidiaries had no significant contribution to the Group's operating, investing and financing cash flows for the year ended 31 December 2017.

41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debts, which includes the bank borrowings disclosed in note 34, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, reserves and retained profits.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new shares issue and share buy-back as well as the issue of new debts or redemption of existing debt.

42. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018	**2017**
	HK$'000	*HK$'000*
Financial assets		
Financial asset at FVTPL	901	1,017
Available-for-sale investment	–	–
Financial assets at amortised cost	1,022,485	–
Loans and receivables (including cash and cash equivalents)	–	1,047,748
Financial liabilities		
Financial liabilities at FVTPL	4,747	6,632
Financial liabilities at amortised cost	569,067	569,798

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial asset at FVTPL, loan receivable, trade receivables, other receivables, amount(s)/loan due from (to) related companies, fellow subsidiaries, associates and joint ventures, pledged bank deposits, bank balances and cash, trade and other payables and bank borrowings. These risks include market risk (including interest rate risk, currency risk and price risk), credit risk and liquidity risk. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk

Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on variable-rate pledged bank deposits, bank balances and bank borrowings which carry interest at prevailing market interest rates.

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management has closely monitored the interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Interest rate sensitivity analysis

For the purpose of sensitivity analysis, the variable-rate pledged bank deposit and bank balances are excluded as the directors of the Company considered that the interest rate risk of variable-rate pledged bank deposits and bank balances are insignificant as the fluctuation in interest rate is limited. The sensitivity analysis below has been prepared based on the exposure to interest rates for variable-rate bank borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial years and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

If interest rate had been of 50 basis points higher/lower and all other variables held constant, the Group's post-tax profit would decrease/increase by HK$789,000 (2017: HK$751,000) for the year ended 31 December 2018.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. Management manages its foreign currency risk by closely reviewing the movement of the foreign currency rate and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities other than the respective group entities functional currencies at the end of the reporting period are as follows:

	2018	**2017**
	HK$'000	*HK$'000*
Assets		
US$	398,126	332,733
RMB	16,739	25,810
EUR	3,534	2,918
SGD	17	19
IDR	4,585	5,194
CAD	1,061	866
Liabilities		
US$	40,621	29,036
RMB	27,507	3,822
EUR	9,919	7,104
IDR	2,011	1,842
CAD	932	1,043
GBP	1,102	1,184
MYR	3,020	1,751

The carrying amounts of foreign currency denominated intra-group balances which have been eliminated in the consolidated financial statements are as follows:

Amounts due (to) from group entities

	2018	**2017**
	HK$'000	*HK$'000*
US$	(158,350)	(73,685)
RMB	(42,467)	(48,237)
EUR	(8,613)	(8,053)

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Currency risk (Continued)

Currency risk sensitivity analysis

The group entities are mainly exposed to the effect of fluctuation in US$, RMB and EUR. The following table details the Group's sensitivity to a 10% increase and decrease in the functional currency of relevant group entities against US$, RMB and EUR. 10% is the sensitivity rate used as it represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% change in foreign currency rates. A positive (negative) number below indicates an increase (a decrease) in profit where the functional currency of relevant group entities strengthens against the US$, RMB and EUR. For a 10% weakening of the functional currency of relevant group entities, there would be an equal and opposite impact on the profit.

(Decrease) increase in the profit

	2018 *HK$'000*	2017 *HK$'000*
US$ impact	(922)	5,304
RMB impact	(4,371)	(2,146)
EUR impact	(1,232)	1,001

Price risk

The Group is exposed to price risk through its FVTPL which are measured at fair value at the end of the reporting period.

If the market price of the FVTPL had been 7% higher/lower while all other variables were held constant, the Group's profit for the year ended 31 December 2018 would increase/decrease by HK$53,000 (2017: HK$59,000).

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(ii) Credit risk and impairment assessment

As at the end of the reporting period, the Group's maximum exposure to credit risk which would cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, loan receivable and amounts due from/loan to related parties, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers spread over different geographical areas.

The credit risk on liquid funds is limited because management of the Group considers that the counterparties are financially sound.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any significant past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

For other financial assets (including other receivables, loan receivable, amounts due from immediate holding company, associates, joint ventures and a related company, loan to an associates and pledged bank deposits and bank balances), the Group considered these financial assets as low risk because the probability of default of the counterparties is insignificant or do not have any past due amounts. Accordingly, the Group performed impairment assessment individually based on 12m ECL and no allowance for credit losses is provided.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(ii) Credit risk and impairment assessment (Continued)

For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating. In addition, trade receivables and contract assets with significant balances or credit-impaired are assessed for the ECL individually.

The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). As at 31 December 2018, debtors credit impaired of HK$4,805,000 were assessed individually.

Gross carrying amount

Internal credit rating	**Average loss rate**	**Trade receivables** *HK$'000*	**Contract assets** *HK$'000*
Grade 1: Low risk	0.1%	458,042	63,990
Grade 2: Watch list	0.5%	291,235	–
		749,277	63,990

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided HK$1,225,000 impairment allowance for trade receivables and no impairment allowance for contract assets, based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) *HK$'000*	**Lifetime ECL (credit-impaired)** *HK$'000*	**Total** *HK$'000*
As at 31 December 2017 under HKAS 39	–	10,242	10,242
HKFRS 9 adjustment	536	–	536
As at 1 January 2018	536	10,242	10,778
Impairment losses recognised	1,225	4,280	5,505
Reversal of impairment losses *(note)*	–	(6,929)	(6,929)
Amount written off	–	(2,648)	(2,648)
Exchange realignment	–	(140)	(140)
As at 31 December 2018	1,761	4,805	6,566

Note: Impairment losses of HK$6,929,000 was reversed during the year due to settlements made by trade debtors.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(iii) Liquidity risk

The Group's liquidity position is monitored closely by management of the Group. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank loans and ensures compliance with loan covenants.

The Group relies on bank borrowings and advance from related companies as significant sources of liquidity during the reporting period. The Group has available unutilised borrowing facilities of HK$244,207,000 (2017: HK$87,658,000) as at 31 December 2018.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the applicable interest rate at the end of each reporting period.

	Weighted average effective interest rate	On demand	Less than 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31.12.2018							
Non-derivative financial liabilities							
Trade and other payables	–	28,732	320,980	–	2,919	352,631	352,631
Amounts due to associates	–	4,092	–	–	–	4,092	4,092
Amounts due to fellow subsidiaries	–	23,272	–	–	–	23,272	23,272
Amount due to a related company	–	31	–	–	–	31	31
Bank borrowings	4.16	189,041	–	–	–	189,041	189,041
Obligations under finance leases	2.81	–	89	88	80	257	247
		245,168	321,069	88	2,999	569,324	569,314
31.12.2017							
Non-derivative financial liabilities							
Trade and other payables	–	16,017	369,135	–	3,153	388,305	388,305
Amounts due to associates	–	1,723	–	–	–	1,723	1,723
Bank borrowings	2.88	179,770	–	–	–	179,770	179,770
Obligations under finance leases	2.41	–	187	186	301	674	648
		197,510	369,322	186	3,454	570,472	570,446

The amounts included above for bank borrowings comprised term loans from banks with a repayment on demand clause. The maturity analysis of the term loans based on agreed scheduled repayments set out in the loan agreements is summarised below. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors of the Company believe that the term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(iii) Liquidity risk (Continued)

Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments

	Less than 6 months *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
As at 31 December 2018	112,457	112,457	111,694
As at 31 December 2017	82,570	82,570	82,069

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those effective interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

(i) Fair value measurements of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 and 3 based on the degree to which the fair value is observable.

Fair value hierarchy as at 31/12/2018

	Level 1 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Financial asset at FVTPL			
Quoted investment fund	901	–	901
Financial liability at FVTPL			
Contingent considerations of business combinations	–	4,747	4,747

Fair value hierarchy as at 31/12/2017

	Level 1 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Financial asset at FVTPL			
Quoted investment fund	1,017	–	1,017
Financial liability			
Contingent considerations of business combinations	–	6,632	6,632

42. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value measurements of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

Financial assets/ financial liability	Fair value 2018 *HK$'000*	Fair value 2017 *HK$'000*	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Investment fund classified as FVTPL	901	1,017	Level 1	Quoted market bid price	N/A
Contingent considerations of business combinations	4,747	6,632	Level 3	Discounted cash flow	Discount rate of 7.73 percent (2017: 4.44 percent). Probability-adjusted revenues and profits, with a range from HK$187,000,000 to HK$254,691,000 and a range from HK$52,000 to HK$2,036,000 in 2019 respectively (2017: with a range from HK$61,584,000 to HK$86,006,000 and a range from HK$1,532,000 to HK$3,960,000 in 2018 and a range from HK$79,443,000 to HK$92,886,000 and HK$2,228,000 to HK$5,360,000 in 2019 respectively.)*(Note)*

Note: A slight increase in the probability adjusted revenue and profits in isolation would result in a significant increase in the fair value and vice versa. A slight increase in discount rate in isolation would result in a significant decrease in the fair value and vice versa.

For the financial assets and financial liabilities that are not measured at fair value on a recurring basis, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments (continued)

(ii) Reconciliation of Level 3 fair value measurements

31 December 2018

	Contingent considerations of business combinations *HK$'000*
Opening balance	6,632
Fair value changes recognised in profit or loss	1,115
Settlements	(3,000)
Closing balance	4,747

31 December 2017

	Contingent considerations of business combinations *HK$'000*
Opening balance	–
Acquisitions of subsidiaries	6,632
Closing balance	6,632

43. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,500 per month in maximum of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

OT China is member of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of employees of OT China, are charged to the profit or loss in the period to which they relate and represent the amount of contributions payable by OT China to the scheme.

The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in other jurisdictions where the Group operates. Certain employees of the Group eligible for participating in the retirement schemes are entitled to retirement benefits from the schemes. The Group is required to make contributions to the retirement schemes up to time of retirement of the eligible employees, excluding those employees who resigned before their retirements, at a percentage that is specified by the local governments.

During the year ended 31 December 2018, the total cost charged to profit or loss of HK$27,308,000 (2017: HK$25,531,000) represents contributions payable to these schemes by the Group. As at 31 December 2018 and 31 December 2017, contributions of HK$3,902,000 and HK$3,587,000 respectively due in respect of the reporting period had not been paid over to the schemes.

44. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking facilities representing guarantees on payment to certain airline suppliers of the Group for the Group's cargo space purchase and bank borrowings granted to the Group at the end of the reporting period:

	2018	**2017**
	HK$'000	*HK$'000*
Trade receivables	88,845	120,713
Financial asset at FVTPL	901	1,017
Loan receivable	7,522	–
Pledged bank deposits	7,548	8,472
	104,816	130,202

45. OPERATING LEASES

The Group as a lessor

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments as follows:

	2018	**2017**
	HK$'000	*HK$'000*
Within one year	13,113	10,298
In the second to fifth year inclusive	20,693	36,268
	33,806	46,566

The properties held by the Group for rental purpose have committed tenants from 1 to 5 years.

The Group as a lessee

At the end of each reporting period, the Group had future minimum lease payments under non-cancellable operating leases in respect of various offices, quarters and motor vehicles are as follows:

	2018	**2017**
	HK$'000	*HK$'000*
Within one year	55,703	53,122
In the second to fifth year inclusive	60,261	80,794
Over five years	519	–
	116,483	133,916

As at 31 December 2018, included in the above future minimum lease payments within one year for related companies are HK$1,702,500 (2017: HK$3,382,500).

The lease terms are between 1 and 10 years, and the majority of lease agreements are renewable at the end of the lease terms at market rate.

46. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company:

(a) Share Option Scheme

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 21 June 2014 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 20 June 2024. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on its listing date on 11 July 2014, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

During the year ended 31 December 2017, the Company had cancelled options issued under the Scheme.

Details of the movements of the Company's share options held by directors and employees are as follows:

	Number of share options
Outstanding as at 1 January 2017	2,782,000
Exercise of share options	(1,466,000)
Cancellation of share options*	(1,316,000)
Outstanding as at 31 December 2017	–

* Options were granted on 26 January 2015.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

(b) Share Award Plan

A share award plan was adopted on 17 August 2018 (the "Share Award Plan"). The Share Award Plan is to recognise and reward the contribution of eligible participants to the growth and development of the Group, to give incentives to eligible participants in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The awarded shares will be subscribed for and/or purchased by an independent trustee (the "Trustee") from the open market by utilising the funds to be allocated by the directors of the Company out of the Company's resources. The maximum number of awarded shares to be subscribed for and/or purchased by the Trustee for the purpose of the Share Award Plan shall not exceed 5% of the total number of issued shares as at the beginning of such financial year.

The Share Award Plan shall be valid and effective for a period of 10 years commencing from 17 August 2018 but may be terminated earlier as determined by the board.

46. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Equity-settled share option scheme of the Company: (Continued)

(b) Share Award Plan (Continued)

During the year ended 31 December 2018, based on the Company's instructions, the Trustee has purchased and held a total of 2,200,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK$2.34 to HK$3.35 per share at a total consideration (including related transaction costs) of HK$6,563,000 until fulfillment of specified conditions before vesting.

The Company granted 10,400,000 shares to 42 selected participants on 31 August 2018, which will be vested 30%, 30% and 40% on every anniversary date of the grant date. 3 selected participants did not accept the award shares granted pursuant to the award. As such an aggregate of 9,400,000 award shares were granted and accepted by the selected participants.

Details of the share awards granted under the Share Award Plan are as follows:

	Date of grant	Number of share awards granted	Exercise period	Fair value per award share *HK$*
Batch 1 - Tranche 1	31 August 2018	570,000	31 August 2019 to 31 August 2028	2.49
Batch 1 - Tranche 2	31 August 2018	570,000	31 August 2020 to 31 August 2028	2.57
Batch 1 - Tranche 3	31 August 2018	760,000	31 August 2021 to 31 August 2028	2.62
Batch 2 - Tranche 1	31 August 2018	2,250,000	31 August 2019 to 31 August 2028	2.43
Batch 2 - Tranche 2	31 August 2018	2,250,000	31 August 2020 to 31 August 2028	2.52
Batch 2 - Tranche 3	31 August 2018	3,000,000	31 August 2021 to 31 August 2028	2.58

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

	2018
Weighted average share price	HK$3.34
Exercise price	HK$1
Expected volatility	59.69%
Expected life	10 years
Risk-free rate	2.144%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$738,000 for the year ended 31 December 2018 (2017: nil) in relation to share awards granted by the Company based on the number of share awards granted expected to vest. At the end of the reporting period, the Group revises its estimates of the number of share awards that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share options/awards reserve.

47. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, the Group did not enter into finance lease arrangements in respect of capital assets acquired (2017: HK$430,000).

48. RELATED PARTY TRANSACTIONS

During the year, the Group has entered into the following related party transactions:

	2018 *HK$'000*	**2017** *HK$'000*
Fellow subsidiary		
Shanghai YTO International Freight Co. Ltd.		
– Freight income received	6,471	–
– Freight charge paid	34,296	–
Yuantong Express Co., Ltd.		
– International express and parcel expenses paid	46	–
YTO Express Group Co., Ltd.		
– Freight income received	907	–
– Freight charge paid	762	–
Korea Yuantong Express Co., Ltd.		
– International express and parcel expenses paid	383	–
YTO Courier (Hong Kong) Company Limited		
– International express and parcel expenses paid	141	5
Associates		
OT Bangladesh		
– Freight income received	(146)	101
– Freight charge paid	41,373	38,232
OT WW Dubai		
– Freight income received	912	2,576
– Freight charge paid	3,673	3,812
– Management fee income received	749	1,068
OT Abu Dhabi		
– Freight income received	65	67
– Freight charge paid	5	1
– Management fee income received	59	30
VGL HK		
– Freight income received	124	355
– Freight charge paid	47	131
– Management fee income received	24	24
– Loan interest income received	25	25

48. RELATED PARTY TRANSACTIONS (CONTINUED)

	2018 *HK$'000*	**2017** *HK$'000*
VGL China		
– Freight income received	634	2,430
– Freight charge paid	91	98
– Management fee income received	–	24
OT Sri Lanka		
– Freight income received	73	327
– Freight charge paid	10,239	8,216
– Management fee income received	480	502
– Management fee paid	1	–
OT Korea		
– Freight income received	713	354
– Freight charge paid	5,295	844
– Management fee income received	1,117	189
Joint venture		
OTX Rotterdam		
– Freight income received	28,891	40,237
– Freight charge paid	2,648	3,334
Related companies controlled by Mr. Lam		
First Choice International Limited		
– Rental expenses paid	–	380
On Good Development Limited		
– Rental expenses paid	1,740	1,819
Related company controlled by Mr. Haenisch		
Polaris Expedite Trading, Inc.		
– Freight income received	244	–
Related company controlled by Mr. Dennis Ronald de Wit		
D.R. de Wit Beheer B.V. *(note)*		
– Management fee paid	3,323	3,101

Note: A company in which Mr. Dennis Ronald de Wit, a key management personnel of the Company, has a controlling interest.

The remuneration of directors of the Company and other members of key management of the Group during the year was as follows:

	2018 *HK$'000*	**2017** *HK$'000*
Staff costs excluding retirement benefit contributions	11,078	15,703
Retirement benefit contributions	295	396
	11,373	16,099

The remuneration of key management is determined having regard to the performance of individuals and market trends.

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018	2017
	HK$'000	*HK$'000*
Non-current assets		
Interest in a subsidiary *(note i)*	683	683
Amounts due from subsidiaries	463,339	461,135
	464,022	461,818
Current assets		
Other receivables and prepayments	430	428
Amount due from immediate holding company	1,245	1,245
Bank balances and cash	654	12,138
	2,329	13,811
Current liabilities		
Other payables	2,877	8,484
Amount due to an associate	14	109
	2,891	8,593
Net current assets	(562)	5,218
Total assets less current liabilities	463,460	467,036
Capital and reserves *(note ii)*		
Share capital	41,427	41,427
Reserves	422,033	425,609
	463,460	467,036

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Notes:

(i) The investment represents unlisted investment cost on 100% equity interest in OT BVI.

(ii) Movement of the Company's reserves

	Share premium *HK$'000*	Treasury stock *HK$'000*	Share options/ awards reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2017	418,048	–	1,090	13,048	432,186
Profit and total comprehensive income for the year	–	–	–	7,433	7,433
Issue of shares upon exercise of share options	2,868	–	(596)	–	2,272
Recognition of equity settled share-based payment	–	–	40	–	40
Cancellation of share options	–	–	(534)	534	–
Dividend paid to shareholders *(note 13)*	–	–	–	(16,322)	(16,322)
At 31 December 2017	420,916	–	–	4,693	425,609
Profit and total comprehensive income for the year	–	–	–	11,777	11,777
Treasury stock addition *(note 46)*	–	(6,563)	–	–	(6,563)
Recognition of equity-settled share-based payment	–	–	738	–	738
Dividend paid to shareholders *(note 13)*	–	–	–	(9,528)	(9,528)
At 31 December 2018	420,916	(6,563)	738	6,942	422,033

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries as at 31 December 2018 and 31 December 2017 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2018	2017	Place of operation	Principal activities
Gold Forum International Limited	The BVI 3 May 2011	US$50,000	100%	100%	Hong Kong	Inactive
Harbour Zone Limited	The BVI 4 January 2011	US$50,000	100%	100%	Hong Kong	Investment holding
Jumbo Channel Limited	The BVI 4 May 2011	US$50,000	100%	100%	Hong Kong	Investment holding
OT BVI	The BVI 3 March 2011	US$50,000	100%	100%	Hong Kong	Investment holding
YTO Express Worldwide Limited ("YTO BVI")	The BVI 19 March 2018	US$50,000	100% *(note 1)*	N/A	Hong Kong	Inactive
On Time Worldwide Logistics Cambodia Co., Ltd.	Cambodia 4 November 2010	KHR4,000,000	100%	100%	Cambodia	Provision of freight forwarding services
OTX Logistics Canada Limited	Canada 15 April 2011	CAD10	51%	51%	Canada	Provision of freight forwarding services
Citynet 聯城物流環球有限公司	Hong Kong 17 September 1999	HK$2	100%	100%	Hong Kong	General sales agency
eTotal Solution Limited	Hong Kong 9 June 2015	HK$3,000,000	100%	100%	Hong Kong	Provision of International express and parcel services and investment holding
On Time Aviation Services Limited 先達航材服務有限公司	Hong Kong 11 April 2011	HK$10,000	100%	100%	Hong Kong	Contract Logistic and investment holding
OT HK 先達國際貨運有限公司	Hong Kong 18 July 1995	HK$20,000,000	100%	100%	Hong Kong	Provision of freight forwarding services and investment holding

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2018	2017	Place of operation	Principal activities
On Line Service Limited	Hong Kong 17 December 2009	HK$10,000	100%	100%	Hong Kong	Investment holding
OT SL HK 先達航運有限公司	Hong Kong 15 September 2004	HK$10,000	100%	100%	Hong Kong	Issuing of bills of lading
On Time Worldwide Limited	Hong Kong 12 July 2011	HK$10,000	75%	75%	Hong Kong	Provision of freight forwarding services
OT WW HK 先達環球物流有限公司	Hong Kong 30 April 2004	HK$500,000	100%	100%	Hong Kong	Provision of warehousing services and international express and parcel services
On Union HK 安聯管理有限公司	Hong Kong 8 December 2003	HK$10,000	100%	100%	The PRC	Properties holding
On Time International Logistics Private Limited	India 12 January 2010	INR33,146,690	100%	100%	India	Provision of freight forwarding services
PT. On Time Express	Indonesia 22 February 2000	US$200,000	95%	95%	Indonesia	Provision of freight forwarding services
On Time Worldwide Logistics Ltd.	Japan 28 November 2011	JPY20,000,000	100%	100%	Japan	Provision of freight forwarding brokerage services
City Net Global Cargo Sdn. Bhd.	Malaysia 2 April 2012	RM100	100%	100%	Malaysia	Inactive
On Time International Logistics Sdn. Bhd. (“OT Int’l Malaysia”)	Malaysia 4 December 2002	RM230,000	60% *(note 2)*	60% *(note 2)*	Malaysia	Inactive
On Time Worldwide Logistics Sdn. Bhd.	Malaysia 25 November 2004	RM1,500,000	100%	100%	Malaysia	Provision of freight forwarding services

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2018	2017	Place of operation	Principal activities
先達國際貨運(上海)有限公司@ OT China*	The PRC 10 October 2004	RMB12,000,000	100%	100%	The PRC	Provision of freight forwarding services and investment holding
深圳前海易達跨境電子商務有限公司@ eTotal Solution Co. Ltd.*	The PRC 26 July 2016	–	100%	100%	The PRC	Provision of international express and parcel services
On Time Worldwide Logistics Pte. Ltd.	Singapore 22 June 2006	SGD110,000	100%	100%	Singapore	Provision of freight forwarding services
OTX Logistics Korlátolt Felelősségü Társaság	Hungary 15 February 2017	HUF3,000,000	100%	100%	Hungary	Provision of freight forwarding services
Total Chain Limited	Hong Kong 17 March 2017	HK$10,000	100%	100%	Hong Kong	Provision of international express and parcel services
Best Loader HK	Hong Kong 29 July 2014	HK$1,000,000	100%	100%	Hong Kong	Provision of freight forwarding services
翼尊國際貨運代理(上海)有限公司@ Best Loader Shanghai*	The PRC 19 May 2016	RMB5,000,000	100%	100%	The PRC	Provision of freight forwarding services
On-Time Worldwide Logistics Limited ("OT Thailand")	Thailand 4 January 2006	THB10,000,000	82.5% *(note 3)*	82.5% *(note 3)*	Thailand	Agent for provision of freight forwarding services
OTX Logistics Holland	The Netherlands 28 May 1998	EUR86,300	100% *(note 4)*	75%	The Netherlands	Provision of freight forwarding services and investment holding
OTX Solutions Holland	The Netherlands 19 April 2006	EUR18,000	80% *(note 4)*	60% *(note 5)*	The Netherlands	Provision of freight forwarding services
Westpoort Recon B.V.	The Netherlands 17 December 1993	EUR18,151	100% *(note 4)*	75%	The Netherlands	Provision of freight forwarding services

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2018	2017	Place of operation	Principal activities
OTX Logistics Inc.	USA 1 October 2011	US$2,000,000	100%	100%	USA	Provision of freight forwarding services
On Time Worldwide Logistics DWC-LLC	The United Arab Emirates 25 April 2012	AED300,000	100%	100%	Dubai	Inactive
On Time Worldwide Logistics (Vietnam) Co., Ltd. ("OT Vietnam")	Vietnam 22 December 2005	US$80,000	100% *(note 6)*	100% *(note 6)*	Vietnam	Provision of freight forwarding services

* The English name is translated for identification purpose only.

@ The company is a wholly-owned foreign enterprise established in the PRC.

Notes:

1. YTO BVI was incorporated in the BVI as a limited company on 19 March 2018.

2. OT Int'l Malaysia has submitted an application for strike off. As of the date these consolidated financial statements were authorised for issuance, the strike off application has not been completed.

3. 33.5% of the equity interest in OT Thailand is held by a third party on behalf of the Group through loan assignment, share pledge agreement, letter of undertaking and proxy entered by the third party and the Group.

4. On 16 April 2018, 25% of the equity interest of OTX Logistics Holland was acquired at a consideration of HK$38,000,000. Following the acquisition, OTX Logistics Holland and Westpoort Recon B.V. are wholly-owned by the Group and OTX Solutions Holland is owned as to 80% by the Group.

5. OTX Solutions Holland was a wholly-owned subsidiary of OTX Logistics Holland as at 31 December 2011. In 2012, OTX Logistics Holland disposed of 40% interest in OTX Solutions Holland. Following the disposal, OTX Solutions Holland is owned as to 45% by the Group. On 10 July 2017, OTX Logistics Holland acquired 20% of the equity interest of OTX Solutions Holland. Following the acquisition, OTX Solutions Holland is owned as to 60% by the Group.

6. 49% of the equity interest in OT Vietnam is held by a third party on behalf of the Group through loan agreement, charter capital mortgage agreement, letter of undertaking and proxy entered by the third party and the Group.

7. The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

8. None of the subsidiaries had issued any debt securities at the end of the year, or at any time during the year.

51. SUBSEQUENT EVENTS

On 22 March 2019, given the fulfillment of net asset values of Best Loader HK and Best Loader China as at 31 December 2018, the Group has paid to the vendor HK$250,000 and HK$2,250,000 in cash respectively for payment of part of the consideration for the sales and purchase agreements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements.

RESULTS

	Year ended 31 December				
	2018	**2017**	**2016**	**2015**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	4,462,803	3,670,514	2,867,339	3,223,589	3,468,061
Profit before taxation	128,583	123,510	16,036	65,359	91,747
Income tax expense	22,880	22,525	9,733	13,006	26,463
Profit attributable to owners of the Company	104,163	97,501	4,967	49,900	59,573
Profit attributable to non-controlling interests	1,540	3,484	1,336	2,453	5,711

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	**2017**	**2016**	**2015**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	121,857	136,960	109,233	115,061	107,502
Current assets	1,145,410	1,100,387	830,996	750,881	809,710
Total assets	1,267,267	1,237,347	940,229	865,942	917,212
Current liabilities	668,975	665,840	461,344	372,775	453,589
Total assets less current liabilities	598,292	571,507	478,885	493,167	463,623
Non-current liabilities	15,985	17,768	16,245	17,676	18,060
Net assets	582,307	553,739	462,640	475,491	445,563
Equity					
Share capital	41,427	41,427	41,280	41,457	41,500
Reserves	534,694	485,571	393,659	404,734	375,783
Net assets attributable to owners of the Company	576,121	526,998	434,939	446,191	417,283
Non-controlling interests	6,186	26,741	27,701	29,300	28,280
Total equity	582,307	553,739	462,640	475,491	445,563

GLOSSARY

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

"AGM"	annual general meeting of the Company
"Articles"	the amended and restated articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"BVI"	British Virgin Islands
"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	YTO Express (International) Holdings Limited (formerly known as "On Time Logistics Holdings Limited")
"Company Secretary"	the secretary of the Company
"Corporate Governance Committee"	the corporate governance committee of the Company
"Director(s)"	the director(s) of the Company
"Executive Committee"	the executive committee of the Company
"FY2017"	the year ended 31 December 2017
"FY2018"	the year ended 31 December 2018
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Date"	11 July 2014, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"MD&A"	the Management Discussion and Analysis
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company

GLOSSARY (CONTINUED)

"Prospectus"	the prospectus of the Company dated 30 June 2014
"Remuneration Committee"	the remuneration committee of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of par value HK$0.1 each in the issued share capital of the Company
"Share Award Plan"	the share award plan adopted by the Company on 17 August 2018
"Share Option Scheme"	the share option scheme adopted by the Company on 21 June 2014
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"USA"	United States of America
"YTO Express"	圓通速遞股份有限公司 (YTO Express Group Co., Ltd.*), a joint stock limited liability company incorporated in the PRC, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600233), and a controlling Shareholder
"YTO Express Group"	YTO Express and its subsidiaries
"YTO Express Members"	YTO Express Group and associated companies excluding the Group
"Yuan Jun"	上海圓鈞國際貿易有限公司 (Shanghai Yuan Jun International Trading Company Limited*), a company established in the PRC and a wholly-owned subsidiary of YTO Express, and a controlling Shareholder
"Yuantong Jiaolong"	上海圓通蛟龍投資發展（集團）有限公司 (Shanghai Yuantong Jiaolong Investment Development (Group) Co., Ltd.*), a company established in the PRC and the controlling shareholder of YTO Express which directly held approximately 51.05% of the equity interest in the share capital of YTO Express, and a controlling Shareholder
"%"	per cent

* For identification purposes only