ANNUAL REPORT
2018

TIAN YUAN HEALTHCARE
天元医疗

China Tian Yuan Healthcare Group Limited

(Incorporated in the Cayman Islands with limited liability)
(STOCK CODE: 557)

Contents

Mission Statement

To invest in businesses with high growth potential so as to increase shareholder value.

Chairman's Statement

On behalf of the board (the "Board" or "Board of Directors") of directors (the "Directors") of the Company, I am pleased to present China Tian Yuan Healthcare Group Limited (the "Company") and its subsidiaries (the "Group") results for the financial year ended 31 December 2018 ("FY2018"). The Group recorded a net loss attributable to the equity shareholders of the Company of approximately HK$27.6 million for FY2018 as compared with a net profit attributable to the equity shareholders of the Company of approximately HK$14.9 million in the previous corresponding year. The higher net loss was mainly due to lower revenue earned from the Group's newly set up Money Lending and Related Business segment and the net unrealised valuation loss on trading securities for FY2018.

Investment Holding Segment

The Group's Investment Holding segment recorded net gain on fair value of other financial assets/liabilities and deferred consideration of approximately HK$7.8 million, which is partially affected by the net realised and unrealised valuation loss on trading securities of approximately HK$0.9 million. Overall, total net realised and unrealised gain of approximately HK$6.9 million was recorded for FY2018 as compared with the total net realised and unrealised gain of approximately HK$30.2 million in the previous corresponding year. Consequently, the Group's Investment Holding segment reported a loss before tax of approximately HK$36.8 million for FY2018 as compared with a loss before tax of approximately HK$22.0 million in the previous corresponding year.

Hospitality Segment

On the Group's Hospitality segment, the Group's U.S. hotel management arm, Richfield Hospitality, Inc. recorded lower management fee income of approximately HK$4.4 million for FY2018, down by approximately HK$6.2 million from approximately HK$10.6 million in the previous corresponding year. The decrease in revenue with lower administrative expenses which resulted in a loss before tax of approximately HK$9.8 million for FY2018 as compared with a loss before tax of approximately HK$9.4 million in the previous corresponding year.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of approximately HK$20.8 million as compared with approximately HK$22.0 million from the previous corresponding year. The hotel recorded a loss before tax of approximately HK$2.2 million for FY2018 as compared with loss before tax of approximately HK$2.5 million in the previous corresponding year.

The Group's 51% equity interest in Sceptre Hospitality Resources, LLC together with its subsidiaries, Sceptre Hospitality Resources Pte Ltd, Sceptre Hospitality Resources Europe S.L. and Cross-Tinental S.L. (collectively, the "SHR Group"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue of HK$90.4 million, up by approximately HK$17.1 million or 23.5% from approximately HK$73.3 million in the previous corresponding year. SHR Group incurred lower administrative expenses during FY2018, resulting in an operating loss of approximately HK$21.5 million as compared with an operating loss of approximately HK$26.5 million in the previous corresponding year.

The Group also recognised share of loss from its associates, S-R Burlington Partners, LLC. of approximately HK$2.3 million for FY2018, as compared to a share of profit of HK$0.3 million in the previous corresponding year.

Consequently, the Group's Hospitality segment reported a loss before tax of approximately HK$35.8 million for FY2018 as compared with a loss before tax of approximately HK$38.1 million in the previous corresponding year.

Healthcare Segment

On 31 August 2017, the Company effectively obtained 51% of the enlarged issued share capital of PRIP Communications Limited ("PRIP") and obtained control of PRIP, and its wholly owned subsidiary DIAM Holdings Co., Ltd. ("DIAM"). PRIP and DIAM forms the Group's new Healthcare segment. For the year ended 31 December 2018, PRIP contributed royalty income of approximately HK$8.1 million as compared with royalty income of approximately HK$2.7 million in the previous corresponding year, and PRIP and DIAM contributed service income of approximately HK$18.4 million as compared with service income of approximately HK$4.0 million in the previous corresponding year. PRIP has fulfilled the performance guarantee in FY2018, please refer to the announcement of the Company dated 30 May 2017, 17 August 2017, 28 March 2018 and 28 March 2019, for further details.

Chairman's Statement

Money Lending and Related Business Segment

The Group continues to operate the Money Lending and Related Business during the year. This segment contributed handling income of HK$3.1 million and interest income from third parties loans of HK$25.5 million respectively as compared with handling income of HK$6.1 million and interest income from third parties loans of HK$5.7 million respectively in the previous corresponding year. In previous year, the Group recorded HK$47.4 million referral fee income, while no such income arose during the year.

Basic loss per share for FY2018 was HK6.92 cents, calculated on loss attributable to ordinary equity shareholders of HK$27.6 million and the weighted average number of ordinary shares of the Company in issue during the year of 398,979,524. The Group's net tangible assets per share increased to HK$0.62 as at 31 December 2018, up from HK$0.58 at 31 December 2017. The Board did not propose a final dividend for FY2018.

PROSPECTS

The Group remains cautious in the midst of the global uncertainty, though real estate and hospitality markets in the U.S. have remained active. The Group is in consultation with its joint venture partners to respond to market interests in our investments.

The Group will adopt a prudent approach in managing the hospitality related businesses by ensuring costs are kept in line with the level of business activities in order to reduce loss in the segment.

Besides the hospitality segment, the Group has been continuously exploring healthcare and plastic surgery sector in China.

In order to diversify the business of the Group and maximise returns to the shareholders of the Company (the "Shareholders"), the Group has been actively seeking various investment opportunities in high-growth healthcare-related industries, including but not limited to the plastic surgery and assisted reproductive IVF services hospitals in China and other Asia markets. On 16 May 2018, Tianyuan IVF Medical Investment Limited ("**Tianyuan IVF**"), a wholly-owned subsidiary of the Company, entered into a shareholders' agreement with Omega Consultant Co., Ltd.* (บริษัทโอเมก้าคอนซัลเทนท์ จำกัด) ("**Omega**") and Sukhaphapdee Aryuyeun Karnphat Co., Ltd.* (บริษัทสุขภาพดี-อายุยืนการแพทย์ จำกัด) ("**Sukhaphapdee**") pursuant to which Tianyuan IVF, Omega and Sukhaphapdee agreed to set up a joint venture company (the "**Joint Venture**") in Thailand which will engage in the business of developing, operating and investing in the In-Vitro Fertilization and other auxiliary services.

In addition, the Group commenced a new business segment since second half of 2017 by entering into money lending and related businesses which include lender or borrower referral business, fund matching, fund arrangement and/or fund participation (the "New Business Activities") but exclude any regulatory activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). The Group intends to develop the New Business Activities by leveraging and making good use of the resource and network of the two executive Directors in banking and finance industries.

In July 2018, Delightful Aesthetics Investment Limited, a wholly-owned subsidiary of the Company was granted a money lending license under the Money Lenders Ordinance (Cap. 163 of the Laws of Hong Kong).

The Group will continue to hold some trading securities and will monitor and make appropriate changes on the investment portfolio from time to time to adapt to the economic environment. In addition, the Group will explore different short-term investment plans to improve its investment return by using the cash reserves on hand in different currencies. From time to time, there could be continued adjustments attributable to unrealised gains or losses arising from the fair value measurement of the Group's trading securities and unrealised gains or losses on the revaluation of foreign currency cash deposits.

On behalf of the Board of Directors, I would like to thank all customers, business partners, Shareholders, management and staff for their continued support of the Group.

Jiang Yulin
Chairman
26 April 2019

Financial Statistics Summary

Consolidated Statement of Profit or Loss

	The Group				
	2018 HK$'000	**2017 HK$'000**	**2016 HK$'000**	**2015 HK$'000**	**2014 HK$'000**
Continuing operations					
Revenue	**171,556**	175,280	100,654	92,207	100,130
(Loss)/Profit before taxation	**(39,672)**	902	(50,743)	(48,336)	(23,478)
Income tax (expense)/credit	**(375)**	(2,330)	(10,556)	(13,638)	4,964
Loss for the year	**(40,047)**	(1,428)	(61,299)	(61,974)	(18,514)
Attributable to:					
Equity shareholders of the Company	**(27,622)**	14,877	(57,550)	(55,067)	(18,978)
Non-controlling interests	**(12,425)**	(16,305)	(3,749)	(6,907)	464
Loss for the year	**(40,047)**	(1,428)	(61,299)	(61,974)	(18,514)
Earnings per share					
Basic (loss)/earnings per share (HK cents)	**(6.92)**	3.83	(15.05)	(14.40)	(4.96)
Continuing operations					
Basic (loss)/earnings per share (HK cents)	**(6.92)**	3.83	(15.05)	(14.40)	(4.96)

Financial Statistics Summary

Consolidated Statement of financial position

	The Group				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Property, plant and equipment	**53,845**	55,383	41,058	43,351	41,904
Intangible assets	**142,653**	161,311	7,064	8,167	10,873
Goodwill	**95,016**	94,837	8,941	8,934	8,942
Available-for-sale financial assets	**–**	18,321	18,179	32,985	33,016
Long term bank deposits	**–**	–	–	3,797	9,780
Interest in associates	**8,367**	6,682	8,491	8,322	8,880
Deferred tax assets	**–**	–	–	10,183	24,632
Trade and other receivables	**23,779**	28,567	–	–	–
Other financial assets	**538**	13,120	–	–	–
Current assets	**381,074**	340,895	446,436	494,141	536,026
Total assets	**705,272**	719,116	530,169	609,880	674,053
Current liabilities	**(62,956)**	(37,100)	(28,827)	(30,382)	(30,893)
Total assets less current liabilities	**642,316**	682,016	501,342	579,498	643,160
Deferred consideration	**–**	(1,719)	–	–	–
Dividends received in excess of earnings from equity-method accounted joint venture	**(227)**	(227)	(209)	(19,487)	(17,256)
Interest-bearing borrowings	**(28,041)**	(28,946)	(28,982)	(29,591)	(30,394)
Loan from non-controlling interests	**(11,940)**	(42,787)	(2,908)	–	–
Deferred rental expenses	**(1,897)**	(586)	–	–	–
Deferred tax liabilities	**(15,938)**	(15,908)	–	–	–
Other financial liabilities	**(8,272)**	(16,787)	–	–	–
Net assets	**576,001**	575,056	469,243	530,420	595,510
Capital and reserves					
Share capital	**398,980**	398,980	382,450	382,450	382,450
Share premium	**20,663**	20,663	–	–	–
Reserves	**66,305**	68,134	52,205	109,653	167,784
Total equity attributable to equity shareholders of the Company	**485,948**	487,777	434,655	492,103	550,234
Non-controlling interests	**90,053**	87,279	34,588	38,317	45,276
Total equity	**576,001**	575,056	469,243	530,420	595,510

Financial Statistics Summary

Major Properties

Hotels	Tenure	Approximate Site Area (sq. Metres)	Number of Rooms	Effective Group Interest (%)
Sheraton Chapel Hill Hotel 1 Europa Drive Chapel Hill, North Carolina, U.S.	Fee Simple	20,072	168	43

Products and Services

SWAN Holdings Limited Group (“SWAN ”)

SWAN, a subsidiary of the Company, provides integrated solutions to the hospitality industry. SWAN can help hoteliers manage their properties in a more effective, competitive and cost efficient manner. The SWAN team offers a host of value-added services and expertise in all facets of hotel operation through its two business divisions: Richfield and Sceptre.

Richfield Hospitality Services (Hotel Management)

Richfield is an established and highly reputable hotel management company. With strong industry relations and global experience, Richfield is authorized to operate hotels under leading brand affiliations as well as to provide hotel operations and marketing for independently branded properties. For over three decades, Richfield has successfully managed and skillfully developed hotel assets across all markets, categories and consumer segments while specializing in operating premier resorts, full service hotels and limited service properties. Richfield managed in the form of operational management contracts, asset management, ownership and/or shared investment, with franchise licenses from leading hotel companies including Hilton, Starwood, Marriott, and Choice International. Richfield also operates several independent (non-brand affiliated) properties. During 2018, Richfield has ceased the hotel management service in order to reduce loss in the hospitality segment.

Sceptre Hospitality Resources (Reservation Distribution)

Sceptre Hospitality Resources (SHR) is a leading provider and pioneer of advanced tools and services that help hotels execute their best distribution strategy while delighting guests and optimizing profitability. For technology driven distribution, operational efficiencies, and client management, the technical maturity of SHR is second to none. In addition to serving thousands of properties around the globe with Windsurfer® CRS and Booking Engine, SHR also provides Revenue Management for Hire to brands, chains, and management companies. SHR brings hoteliers nimble technology, intelligently supported by tested industry experts—keeping hotels competitive.

SHR believes that the Central Reservations System (CRS) should be a complete hotel distribution platform. That's why Windsurfer CRS offerings feature advanced capabilities that allow clients to easily manage their rates and inventory across all distribution channels, providing not only one of the best booking engines on the market, but also the strongest integrations and connections, from the leading Online Travel Agencies (OTAs) to the top meta-search sites, to GDS and IDS.

SHR continues to enhance its Windsurfer offerings with regular system updates, including room class availability, configurable add-ons, and blended rates. The Windsurfer channel manager is also offered to connect to hundreds of niche OTAs around the globe. This is why Windsurfer continues to be a preferred distribution platform for a wide variety of hotel properties, including Wynn Las Vegas, Red Lion Hotels, Millennium & Copthorne, and Tune Hotels.

Windsurfer® CRS Essentials

In the complex world of distribution, small and independent properties can find it hard to reach the same target markets as their larger counterparts. Essentials solves this problem by making it easy for all hotels to become part of the global distribution network. With streamlined, out-of-the-box features, Essentials allows hotels to sell their rooms to millions of potential guests while they manage their entire distribution portfolio—rates, inventory, and channel mix—with cloud-based control.

Products and Services

Windsurfer® CRS Enterprise
An enhanced version of SHR's original Windsurfer, Enterprise brings a fresh look and feel geared toward hotel groups and chains that require a full-service CRS experience. This includes a choice of standard or fully-customized booking engines, and professional account management on different levels and in multiple languages, tailored to each hotel's needs.

Windsurfer® Booking Engine
The Windsurfer Booking Engine gives hotels the flexibility to easily merchandise and sell their rooms, packages, and add-ons in virtually any way they choose. Offering a responsive design, shopping cart-style booking process, persuasive messaging, room upgrading, and many other unique features, the Windsurfer Booking Engine is fully optimized for single property independents, multi-property groups, and chains, allowing cross-selling features and suggestive selling prompts.

Because the Windsurfer Booking Engine was designed responsively, it can automatically adjust to any device or screen size, meaning there is no need to maintain a separate "mobile" booking engine. Today's tech-savvy guests will get the same, seamless experience no matter where or how they book. And with the creation of the Call to Continue™ and Save for Later features, guests can book across multiple devices with ease. A guest may begin researching hotels on a desktop computer at work, continue booking on a tablet at home, and finish the reservation later via a mobile phone.

Revenue Management for Hire
In addition to its innovative technology, SHR also provides an outsourced revenue management service for properties of any size and brand affiliation. Dedicated to finding revenue solutions that work for specific situations, SHR's experienced revenue managers provide unique insight to help build and maintain a winning revenue management strategy for today's hoteliers.

Industry Experience. The SHR Revenue Management team has worked with almost every major brand, as well as independent hotels and resorts, and can provide strategy support for budgeting and long-range forecasting through renovations, re-brandings, and grand openings, no matter the economic climate.

Revenue Expertise. The SHR team boasts a meaningful list of certifications, including HSMAI's Certified Revenue Management Executive and Hotel Revenue Management Certified from eCornell, so hotels can be sure they are getting not only dedication but quality. Because SHR knows that the industry is always changing, they make ongoing training for their revenue management teams a priority.

Intelligent Reporting. SHR has created best-in-class, customized reporting tailored to each hotel so they get a clearer picture of every aspect of the hotel's revenue strategy. This includes discounted STR reports and a monthly scorecard, which provides them with current performance metrics in their competitive set, and a quick snapshot of their hotel's performance.

Business Review

Group Performance

The Group recorded revenue of HK$171.6 million for FY2018, a slight decrease of HK$3.7 million or 2.1% from HK$175.3 million in the previous corresponding year ("FY2017") mainly due to no referral fee income received for FY 2018 (FY 2017: HK$47.4 million), which offset the effect of higher revenue generated from Hospitality segment and Healthcare segment in FY 2018.

The Group reported a net loss attributable to the equity shareholders of the Company of HK$27.6 million for FY2018 as compared with a net profit attributable to equity shareholders of the Company of HK$14.9 million in FY2017, mainly due to the lower revenue earned from the Group's newly set up Money Lending and Related Business segment and the net unrealised valuation loss on trading securities for FY2018.

The analysis of the Group's revenue and profit and loss from operations by business segments are set out in the notes to the financial statements.

Investment Holding

The Group's Investment Holding segment reported fair value gain on other financial assets/liabilities of HK$7.8 million in FY2018 while no such gain was recorded in FY2017.

The result of this segment was negatively impacted by the net realised and unrealised valuation loss of HK$0.9 million from the Group's trading securities holding as at 31 December 2018 as compared with net realised and unrealised valuation gain from the Group's trading securities holding of HK$25.5 million in FY2017.

Net realised and unrealised foreign exchange gain of HK$0.1 million was also recorded as compared with net realised and unrealised foreign exchange gain of HK$4.8 million in FY2017. Overall, the total net realised and unrealised gain of HK$6.9 million was recorded for FY2018 as compared with the total net realised and unrealised gain of HK$30.2 million in FY2017.

Overall, the Investment Holding segment recorded a loss before tax of HK$36.8 million for FY2018 as compared with loss before tax of HK$22.0 million in FY2017.

Hospitality

The Group's Hospitality segment contributed total revenue of HK$115.5 million in FY2018, an increase of HK$9.3 million or 8.75% from HK$106.2 million in FY2017.

Richfield Hospitality, Inc. ("RHI"), the Group's hotel management arm, recorded lower management fee income of HK$4.4 million for FY2018, down by approximately HK$6.2 million from HK$10.6 million in FY2017. Management has prudently operated this business by ensuring that expenses were under control throughout FY2018. The decrease in revenue with lower administrative expenses which resulted in a loss before tax of HK$9.8 million was recorded for FY2018 as compared with a loss before tax of HK$9.4 million in FY2017.

The Group's 51% equity interest in Sceptre Hospitality Resources, LLC together with its subsidiaries, Sceptre Hospitality Resources Pte. Ltd, Sceptre Hospitality Resources Europe S.L. and Cross-Tinental S.L. (collectively, the "SHR Group"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue of HK$90.4 million, up by approximately HK$17.1 million or 23.5% from HK$73.3 million in FY2017. Meanwhile, SHR Group incurred lower administrative expenses during FY2018, resulting in a lower operating loss of HK$21.5 million as compared with an operating loss of HK$26.5 million in FY2017.

The Group's jointly-operated Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK$20.8 million, down by approximately HK$1.2 million or 5.5% from HK$22.0 million in FY2017. The decrease in revenue is positively affected by lower administrative cost and resulted in a loss before tax of HK$2.2 million in FY2018 as compared to HK$2.5 million in FY2017.

The Group also recognised share of losses from its associates, S-R Burlington Partners, LLC. of approximately HK$2.3 million for FY2018, as compared to a share of profit of HK$0.3 million in FY2017.

Overall, the Hospitality segment reported a loss before tax of HK$35.8 million in FY2018 as compared with a loss before tax of HK$38.1 million in FY2017.

Business Review

Money Lending and Related Business
The Group continues to operate the Money Lending and Related Business which include lender or borrower referral business, fund matching, fund arrangement and/or fund participation (the "New Business Activities") but exclude any regulatory activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). The Group develops the New Business Activities by leveraging and making good use of the resource and network of the two executive Directors in banking and finance industries. The Group obtained the money lending licence during the year.

This segment contributed handling income of HK$3.1 million and interest income from third parties loans of HK$25.5 million with a total revenue of HK$28.6 million for FY2018, an increase of HK$16.8 million or 142.3% from HK$11.8 million in FY2017. In previous year, the Group recorded HK$47.4 million referral fee income while no such income arose during the year.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Venture
The Group had no material acquisitions and disposals of subsidiaries, associates and joint venture during the year.

Financial Position
As at 31 December 2018, the Group's total assets stood at HK$705.3 million, decrease from HK$719.1 million as at 31 December 2017. The Group's net tangible asset per share increased to HK$0.62 as at 31 December 2018, up from HK$0.58 as at 31 December 2017.

As at 31 December 2018, the Group's working capital ratio was 6.1 (2017: 9.2).

The Group reports its results in Hong Kong Dollar and it is the objective of the Group to preserve its value in terms of Hong Kong Dollar. It is the Group's policy to continue to pursue strategies that would enhance the Group's long-term value and bring reasonable returns to the Shareholders with a cautious attitude.

Cash Flow and Borrowings
During FY2018, cash used in operations amounted to HK$112.0 million. It was partially offset by the interest income of HK$14.0 million and tax refunded amounted to HK$2.2 million during the year, these result in net cash used in operating activities amounted to HK$95.6 million.

In FY2018, the Group recorded net cash outflow for acquisition of associates amounted to HK$4.0 million. The cash outflow was partially offset by HK$29.3 million from sales of trading securities, HK$43.8 million from return of capital from financial assets and there was an increase of HK$11.9 million in loan from non-controlling interests. The total interest paid in FY2018 amounted to HK$1.3 million.

Overall, HK$21.9 million net cash was used which, together with exchange translation gain of HK$0.9 million, resulted in a total Group's cash and cash equivalents of HK$111.3 million as at 31 December 2018, down from HK$132.3 million as at 31 December 2017.

Taking into account of the Group's bank borrowings of HK$29.0 million as at 31 December 2018, the Group was in a net cash position amounting to HK$82.3 million as at 31 December 2018. Hence, the Group's gearing is zero, which is expressed as a percentage of current and non-current loans and borrowings less cash and cash equivalents over total equity attributable to equity shareholders of the Company.

As at 31 December 2018, the Group's bank borrowings, denominated in U.S. Dollars and fixed at 4.21% per annum, amounted to HK$29.0 million (2017: HK$29.9 million), of which HK$1.0 million was current, as included in the portion of interest-bearing borrowing repayable within a period of one year, and HK$28.0 million was non-current and repayable between 1 and 5 years. The bank loans of the Group are secured over the freehold land and building with a carrying amount of HK$35.6 million, pledge of monies held in specific accounts of HK$3.1 million and a non-recourse carveout guarantee by RHI. In addition, as at 31 December 2018, there was no breach of covenants that are significant to the Group's operations and that will result in the lenders demanding for the immediate repayment of the term loan.

Treasury Activities
Majority of the Group's cash is held in Hong Kong and United States Dollar cash deposits. We will closely monitor the Group's exposure to currency movement and take the appropriate action when necessary.

Directors and Employees
As at 31 December 2018, the Group had a total of 84 employees, including directors but excluding employees from the Hotel, same as 84 as at 31 December 2017. There were 64 (2017: 58) full-time employees from the Hotel as at 31 December 2018.

Business Review

The total Group's staff costs comprising salaries, wages and other benefits was HK$113.0 million as compared with HK$105.7 million in FY2017. The increase in payroll costs was mainly resulted from the Hospitality segment and Healthcare segment.

The Group has a competitive wage and benefits package which are critical to maintaining a level of consistent and quality services.

The Group has conducted a range of training programmes to strengthen employees' all round skills and knowledge, aiming to well-equip them to cope with its development in the ever-changing economy.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial management risks.

A Group's subsidiary which operates primarily to supply hotels with electronic distribution technology is susceptible to information technology risk. The Group strives to maintain safe data hosting environments that are compliant with the Payment Card Industry ("PCI") data security standards and guidelines and constantly monitors the environment in which its software applications are hosted.

The Company's Money Lending and Related Business is susceptible to credit risk. The Group refers to the money lending policy and guidelines for credit assessment on the borrowers, including evaluating a prospective borrowers' financial condition and assessing possible loan collateral. The related agreements are monitored continuously to ensure that the terms are being followed.

The financial risk management policies and practices of the Group are shown in note 35 to the financial statements.

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

Compliance with the Relevant Laws and Regulations

As far as the Board of Directors and management are 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. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Relationship with Suppliers, Customers and other Stakeholders

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The hotel management arm has implemented corporate citizenship programs to enhance relationships with customers. It enjoys good relationships with suppliers and customers and strives to take an active part in the communities where they operate. Staff are encouraged to devote time to help non-profit organisations like food banks or to participate in local fund raising activities. During FY2018, there were no material and significant dispute between the Group and its suppliers and/or customers.

Environmental Policies and Performance

The Group is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Green initiatives and measures have been adopted in the Group's own hotels and Group's managed hotels. Such initiatives include recycling of used papers, energy saving measures and water saving practices. A report containing the prescribed information of environmental, social and governance matters will be available on the website of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") and the Company's third party hosted website at http://www.merrillifn.com/IR/company.php?ref=13 no later than three months after publication of this report.

PROSPECTS

The Group remains cautious in the midst of the global uncertainty, though real estate and hospitality markets in the U.S. have remained active. The Group is in consultation with its joint venture partners to respond to market interests in our investments.

The Group will adopt a prudent approach in managing the hospitality related businesses by ensuring costs are kept in line with the level of business activities in order to reduce loss in the segment.

Besides the hospitality segment, the Group has been continuously exploring healthcare and plastic surgery sector in China.

Business Review

In order to diversify the business of the Group and maximise returns to the Shareholders, the Group has been actively seeking various investment opportunities in high-growth healthcare-related industries, including but not limited to the plastic surgery and assisted reproductive IVF services hospitals in China and other Asia markets. On 16 May 2018, Tianyuan IVF Medical Investment Limited ("**Tianyuan IVF**"), a wholly-owned subsidiary of the Company, entered into a shareholders' agreement with Omega Consultant Co., Ltd.* (บริษัทโอเมก้าคอนซัลเทนท์ จำกัด) ("**Omega**") and Sukhaphapdee Aryuyeun Karnphat Co., Ltd.* (บริษัท สุขภาพดี-อายุยืนการแพทย์ จำกัด) ("**Sukhaphapdee**") pursuant to which Tianyuan IVF, Omega and Sukhaphapdee agreed to set up a joint venture company (the "**Joint Venture**") in Thailand which will engage in the business of developing, operating and investing in the In-Vitro Fertilization and other auxiliary services.

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The Group will continue to hold some trading securities and will monitor and make appropriate changes on the investment portfolio from time to time to adapt to the economic environment. In addition, the Group will explore different short-term investment plans to improve its investment return by using the cash reserves on hand in different currencies. From time to time, there could be continued adjustments attributable to unrealised gains or losses arising from the fair value measurement of the Group's trading securities and unrealised gains or losses on the revaluation of foreign currency cash deposits.

Events After the Reporting Period

The Group did not have any significant events since the end of the financial year.

Corporate Governance Report

for the year ended 31 December 2018

(a) Corporate governance practices

The Directors and management of the Company (the "Management") are committed to maintaining high standards of corporate governance, in line with the principles stated in the Corporate Governance Code (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

In the opinion of the Directors, the Company has complied with CG Code throughout the year under review.

The Company reviews its corporate governance practices from time to time to ensure compliance with the CG Code.

(b) Directors' securities transactions

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding Directors' securities transactions. All Directors have confirmed that they have complied with the Model Code throughout the year under review.

(c) Board of Directors

As at the date of this annual report, the Board comprises five Directors, of which two are executive Directors and three are independent non-executive Directors. The members of the Board are as follows:

Executive Directors
Mr. Jiang Yulin (Chairman)
Ms. Zhang Xian

Independent Non-executive Directors
Mr. Hu Baihe
Mr. Yuen Kwok Kuen
Mr. Guo Jingbin

The biographical details of the Directors and senior management of the Company (the "Senior Management") as at the date of this annual report are set out in the Profile on Directors and Senior Management section of the Directors' Report.

There is no relationship (including financial, business, family or other material/relevant relationship) between the Board members and in particular, between the Chairman of the Board and the chief executive officer ("CEO") of the Company.

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

The Board's primary functions are to set corporate policy and overall strategy for the Group and to provide effective oversight of the management of the Group's business and affairs. Apart from its statutory responsibilities, the Board also approves the strategic plans, key operational issues, investments and loans, reviews the financial performance of the Group and evaluates the performance and compensation of Senior Management. These functions are either carried out directly by the Board or through committees established by the Board. The Management is responsible for the day-to-day management and operations of the Company's business including the implementation of internal control, business strategies and plans approved by the Board. The Directors, individually or as a group, are entitled to take independent professional advice, at the expense of the Company, in furtherance of their duties and in the event that circumstances warrant it.

Corporate Governance Report
for the year ended 31 December 2018

(c) Board of Directors (cont'd)

The Company conducts regular scheduled Board meetings. Additional meetings are convened as and when circumstances warrant. The attendance of individual Directors at Board, Audit Committee, Remuneration Committee, Nomination Committee and general meetings of the Company in 2018, as well as the frequency of such meetings, is set out below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Attended 2018 AGM**
Executive Directors					
Mr. Jiang Yulin	7/7	N/A	N/A	1/1	√
Ms. Zhang Xian	7/7	N/A	1/1	N/A	√
Independent Non-executive Directors					
Mr. Hu Baihe	2/7	3/3	1/1	1/1	
Mr. Yuen Kwok Kuen	2/7	3/3	1/1	1/1	√
Mr. Guo Jingbin	2/7	3/3	1/1	1/1	

N/A – Not Applicable

(d) Directors' Training and Professional Development

All Directors should keep abreast of the responsibilities as a Director, and of the conduct and business activities of the Company. The Company is responsible for arranging and funding suitable training for its Directors. The Directors' training records for the year had been provided to the Company.

On appointment to the Board, the newly appointed Director would be provided a comprehensive induction package covering business operations and obligations of being a director to ensure that the Director would be sufficiently aware of the responsibilities under the Listing Rules and other relevant regulatory requirements.

From time to time, the Company updates and provides written materials to the Directors on the latest development of the Listing Rules, applicable laws, rules and regulations relating to directors' duties and responsibilities. All Directors confirmed that they have complied with the CG code provision A.6.5.

(e) Chairman and Chief Executive

Currently, Mr. Jiang Yulin is the Chairman of the Board. Ms. Zhang Xian is the CEO. There is a clear division of responsibilities between the Chairman of the Board and the CEO. The Chairman bears primary responsibility for the workings of the Board, by ensuring its effective function, while the CEO bears executive responsibility for the Company's business, including management of the Company's day-to-day operations and implementation of key policies, procedures and business strategies approved by the Board.

Corporate Governance Report

for the year ended 31 December 2018

(f) Independent Non-executive Directors

The independent non-executive Directors were appointed for a specific term of 2 years, subject to retirement by rotation at annual general meeting and being eligible, to offer themselves for re-election.

(g) Remuneration Committee ("RC")

The RC was established in May 2005 and comprises 3 independent non-executive Directors and 1 executive Director as at the date of this annual report. The members of the RC as at the date of this annual report are as follows:

Mr. Guo Jingbin	Chairman (Independent non-executive Director)
Mr. Yuen Kwok Kuen	Member (Independent non-executive Director)
Mr. Hu Baihe	Member (Independent non-executive Director)
Ms. Zhang Xian	Member (Executive Director)

The primary objective of the RC is to consider Management's remuneration recommendation, and determine the framework or broad policy for remuneration for the Directors and the senior key executives, including the CEO. No Director or any of his associates may be involved in any decisions as to his own remuneration.

The duties of the RC also include:

(a) To review and approve Management's remuneration recommendation and the criteria for assessing employee performance, which should reflect the Company's business objectives and targets; and

(b) To consider Management's recommendation on the payment of annual and/or variable performance bonus to employees of the Company, and review and approve the annual and/or variable performance bonus payable to the executive Directors and Senior Management, having regard to their achievements against the performance criteria and by reference to market norms.

The Group's remuneration policy for the staffs, including Directors, comprises primarily a fixed component (in the form of a base salary) and a variable component (which includes bonus and share award grants), taking into account other factors such as the individual performance, the performance of the Company and industry practices.

The RC met once during the year to discuss remuneration related matters (including the remuneration of Directors and Senior Management) and review the remuneration policy of the Group. It has been decided that the RC would determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management.

Corporate Governance Report
for the year ended 31 December 2018

(g) Remuneration Committee ("RC") (cont'd)

The remuneration payable by band to Senior Management during the year is as follows:

	Number of Individuals
HK$Nil – HK$1,000,000	–
HK$1,000,001 – HK$1,500,000	–
HK$1,500,001 – HK$2,000,000	1
HK$2,000,001 – HK$2,500,000	–
HK$2,500,001 – HK$3,000,000	–
HK$4,000,001 – HK$4,500,000	–

Further details of Directors' and CEO's emoluments and the 5 top-paid employees of the Group during the year are set out in notes 7 and 8 to the Financial Statements.

On 9 December 2016, the Company adopted a share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares to any Directors, employees or third party service providers of the Group as their incentives and rewards so as (i) to provide them with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain such individuals to work with the Company; and (iii) to provide additional incentive for them to achieve performance goals, subject to such conditions as the Board may deem appropriate at its discretion. Further details of the Share Award Scheme are set out in note 30 to the Financial Statements.

At the Extraordinary General Meeting held on 29 March 2018, the shareholders of the Company approved a special mandate for the allotment and issuance of 37,862,500 new shares to Mr. Jiang Yulin, the Chairman of the Board and executive Director of the Company.

(h) Nomination Committee ("NC")

The NC was established in August 2005 and comprises 3 independent non-executive Directors and 1 executive Director as at the date of this annual report. The members of the NC as at the date of this annual report are as follows:

Mr. Hu Baihe	Chairman (Independent non-executive Director)
Mr. Yuen Kwok Kuen	Member (Independent non-executive Director)
Mr. Guo Jingbin	Member (Independent non-executive Director)
Mr. Jiang Yulin	Member (Executive director)

The principal responsibilities of the NC are to review regularly the Board composition, to identify and nominate suitable candidates as Board members, to assess the independence of the independent non-executive Directors, and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular, the Chairman of the Board and the CEO.

The Company has adopted a "Board Diversity Policy" on 1 September 2013 which sets out the Company's approach and the basic principles to be followed in order to achieve diversity on the Board. The Company believes diversity is important to enhance board effectiveness by encouraging a diversity of perspectives and to maintain high standards of corporate governance. The range of diversity perspectives may include a consideration of various factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and other factors based on the specific needs of the Company. The Company agrees with the general philosophy of diversity for the Board, and will pursue this philosophy whenever the opportunity arises, and when it is appropriate.

During the year under review, the NC met once to assess the independence of independent non-executive Directors and the balance and composition of the Board and Board committees. The NC also reviewed and recommended the re-election of the retiring Directors at the 2018 AGM.

Corporate Governance Report
for the year ended 31 December 2018

(i) Audit Committee ("AC")

The AC was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. The AC comprises 3 independent non-executive Directors as at the date of this annual report. The members of the AC as at the date of this annual report are as follows:

Mr. Yuen Kwok Kuen	Chairman (Independent non-executive Director)
Mr. Hu Baihe	Member (Independent non-executive Director)
Mr. Guo Jingbin	Member (Independent non-executive Director)

The principal responsibility of the AC is to assist the Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the effectiveness of the Company's financial reporting process and material internal controls, including financial, operational, compliance and risk management controls. Other duties within its written terms of reference include:

(a) To monitor the integrity of the half-year, quarterly or other periodic and annual financial statements and review them before submission to the Board for approval for publication;

(b) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(c) To review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness; and

(d) To review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the year under review, the AC held (3) meetings in March, August and November. In the meeting held in March 2018, the Annual Report and Audited Financial Statements for the year ended 31 December 2017 were reviewed together with the external auditors. In the August 2018 meeting, the Interim Financial Report for the 6 months ended 30 June 2018 was reviewed. In the November 2018 meeting, the Unaudited Financial Results for the 9 months ended 30 September 2018 were reviewed. Other financial, internal control, corporate governance and risk management matters of the Group were also discussed in these meetings.

The AC has reviewed the independence of the external auditors, KPMG LLP ("KPMG") as well as objectivity and effectiveness of the audit process. The AC also made recommendations to the Board on the appointment and retention of the external auditors. The AC meets with the external auditors separately without the presence of Management, annually.

(j) Corporate governance functions

The Board is responsible for the corporate governance functions, which include the following duties:

(a) To develop and review the Company's policies and practices on corporate governance;
(b) To review and monitor the training and continuous professional development of Directors and Senior Management;
(c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(d) To develop, review and monitor the code of conduct applicable to employees and Directors; and
(e) To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Board has discharged the above functions during the year.

Corporate Governance Report

for the year ended 31 December 2018

(k) Auditors' remuneration

The Company's external auditor is KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally). The remuneration paid/payable to KPMG in respect of audit services and permissible audit related and non-audit services for the year ended 31 December 2018 amounted to approximately HK$3,008,000 and HK$294,000 respectively. The non-audit services of HK$294,000 comprised (i) review of continuing connected transaction of approximately HK$17,000; (ii) review of financial information of approximately HK$42,000; and (iii) review of compilation financial information and others of approximately HK$235,000.

(l) Accountability

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

(m) Risk management and internal controls

Responsibilities

The Board is responsible for confirming and supervising the management's responsibilities in designing, implementing and monitoring the risk management and internal control systems, and the management is responsible for providing confirmation to the Board on the effectiveness of such system.

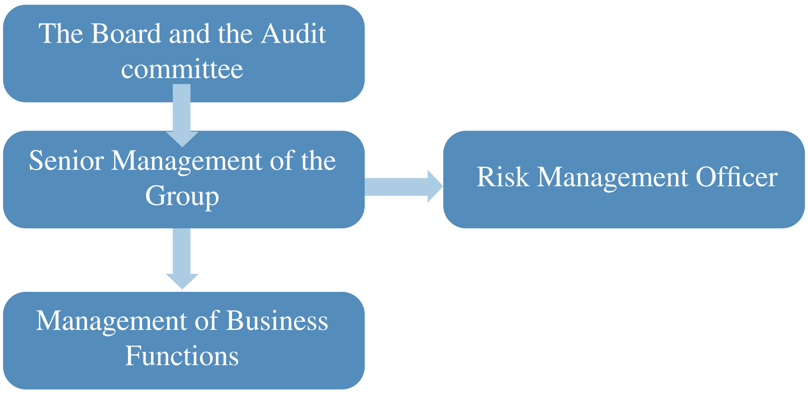
The establishment of a set of robust and efficient risk management and internal control systems is aimed at achieving the Group's strategic objectives and protecting Shareholders' investment and the Group's assets. Such system is designed for managing rather than eliminating the risks of failure in achieving the strategic objectives and only provides reasonable rather than absolute guarantee for not having material false statement or loss.

Risk management and internal control systems

The Group's risk management organisational structure is a 3-tier framework, comprising of the Board and the Audit Committee, senior management of the Group and management of business functions. This structure aims at facilitating the risk management in each aspect of the Group's businesses and constantly improving its internal control system. Details of the structure are set out as follows:

Corporate Governance Report
for the year ended 31 December 2018

Risk Management Structure



Roles performed by parties at all levels within the risk management structure are set out below:

Role	Major Responsibilities
The Board and the Audit Committee	• Reviewing plans for the establishment and responsibilities of the risk management structure and reviewing the basic policies for risk management • Reviewing the *Risk Management Operation Manual* and its amendment • Reviewing material risk assessment report and various risk management reports • Responsible for the assessment of various material risks faced by the Group and its current risk management status • Reviewing risk management measures, and rectifying and dealing with decisions or actions made or taken by relevant organisations or individuals beyond the risk management system • Dealing with other important matters involving risk management
Senior Management of the Group	• Reporting to the Audit Committee on the effectiveness of risk assessment work • Organising and promoting the establishment of the risk management system at the intragroup level • Organising and coordinating the subsidiaries to engage in identifying and assessing material risks at the intragroup level along with overview analyses over information collected from the above engagement to prepare assessment reports on material intragroup risks and various risk management reports, and reporting such information to the Audit Committee • Managing risks at the intragroup level, and studying and proposing relevant measures and proposals for the management of material risks at the intragroup level • Overseeing the cultivation of the Group's general risk management culture

Corporate Governance Report

for the year ended 31 December 2018

Roles performed by parties at all levels within the risk management structure are set out below: (cont'd)

Role	Major Responsibilities
Risk Management Officer	• Coordinating and arranging matters related to risk assessment and countermeasures • Promoting risk management and risk assessment • Overseeing the establishment and implementation of risk mitigation plans and countermeasures of each business department
Management of Business Functions	• Taking ultimate responsibility for risk assessment of their own business function • Ensuring that the business function engages in risk assessment in compliance with the risk assessment manual prepared by the Group • Reviewing and approving risk assessment results • Reviewing countermeasures for risk exposure, and ensuring effective risk management of the Company • Monitoring the major risks faced by the Company and the effectiveness of relevant risk management measures • Allocating resources to risk assessment projects (including fund and personnel)

The Group has prepared the *Risk Management Operation Manual*, which defines its risk management structure, respective responsibilities and processes. In each financial year, the Group organises the management of each business function to implement their respective risk management processes to identify and analyze major risks faced by it and rank relevant risks in terms of their level of impact and chance of occurrence for the purpose of assessing existing risk management measures and determining whether further measures are required to control risks within acceptable level.

The Audit Committee reviews the effectiveness and adequacy of the system on an annual basis. The Group conducts internal reviews on the design and implementation effectiveness of business processes or controls on a systematic rotation basis and submits reports on significant findings in internal control to the Audit Committee on an annual basis. For the identified defects in internal control, the Group conducts further discussion and rectification within the management or reports to the Board for further discussion and rectification based on their significance and level of impact.

The Group has an independent internal audit function, which reports to the Audit Committee regularly. The internal audit function is responsible for reviewing the Group's risk management and internal control measures, and overseeing the management and control of each of the Group's businesses and processes independently, through which the internal audit function assists the Board in promoting the continuous improvement of the Group's risk management and internal control systems. Furthermore, overseas subsidiaries also conduct self-assessment on their internal control on key business processes on an annual basis to assess the effectiveness of their respective internal control system and report to the internal audit function.

The Group has clarified the definition of insider information and specified the procedures for the handling and dissemination of insider information. The Group discloses information to the public generally and non-exclusively through channels including financial reports, announcements and its website, with a view to achieving fair and timely disclosure of information. The Group strictly prohibits unauthorised use of confidential or insider information.

Review on the risk management and internal control systems in 2018

The Board is responsible for reviewing the effectiveness of the risk management and internal control systems for the year. The review covers all material aspects of control, including financial, operational and compliance control. During the year under review, the Board has finished reviewing the Group's risk management and internal control systems through the Audit Committee. The review also covers the adequacy of resources, staff qualifications and experiences, training programmes for staff and relevant budgets for the Group's accounting, internal audit and financial reporting functions. The Board is satisfied with the results of the review and believes that the current risk management and internal controls are effective and adequate.

Corporate Governance Report

for the year ended 31 December 2018

(n) Company secretary

Mr. Chow Wai Hung ("Mr. Chow") is a company secretary of the Company, who is a full time employee of the Company.

Mr. Chow confirmed that he has taken no less than 15 hours of relevant professional training during the year under review.

(o) Shareholders' rights

The Company encourages two-way communications with both institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to Shareholders. Shareholders should direct their questions about their shareholdings to the Company's Share Registrar and may at any time make enquiry to the Board or make request for the Company's information to the extent such information is publicly available at the Company's principal office and/or branch office in Hong Kong.

(i) Procedure for shareholders to convene an extraordinary general meeting

In accordance with Article 72 of the Company's Articles of Association, general meetings may be convened on the written requisition of any two members of the Company deposited at the registered office specifying the objects of the meeting and signed by the requisitionists and such meeting shall be held two (2) months after the deposit of such requisition, and if the Directors do not within twenty-one days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionists themselves may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Directors shall be reimbursed to them by the Company.

(ii) Procedure for shareholders to put forward proposals at shareholders' meetings

There are no provisions in the Company's Articles of Association or the Companies Law of the Cayman Islands for Shareholders to put forward new resolutions at general meetings. Shareholders who wish to put forward a new resolution may request the Company to convene a general meeting in accordance with the procedures set out in the above paragraph heading "Procedures for Shareholders to Convene an Extraordinary General Meeting".

(iii) Procedure for shareholders to nominate a person to stand for election as a Director

If a Shareholder wishes to nominate a person to stand for election as a Director at a general meeting, the relevant documents must be validly served on the principal office of the Company within the requisite period of time. The full details of the procedures for Shareholders to propose a person for election as a Director were posted on 30 March 2012 on the website of the Hong Kong Stock Exchange and the Company's third-party hosted website at http://www.merrillifn.com/IR/company.php?ref=13.

(p) Investor relations

There is no change to the Company's constitutional documents during the year under review.

(q) Dividend policy

The proposal of payment and the amount of the dividends will be made at the discretion of the Board and will depend on the Group's general business condition and strategies, cash flows, financial results and capital requirements, the market situation from time to time, taxation conditions, the interests of the shareholders of the Company, statutory and regulatory restrictions and other factors that the Board deems relevant. Any declaration of dividends will be subject to the approval of the shareholders of the Company.

The Dividend Policy will be reviewed from time to time which should not form a commitment on distribution of dividends to the shareholders of the Company and there is no assurance that dividends will be paid in any particular amount for any given period.

Directors' Report

for the year ended 31 December 2018

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

PRINCIPAL PLACE OF BUSINESS

China Tian Yuan Healthcare Group Limited (the "Company") is a company incorporated in the Cayman Islands and domiciled in Hong Kong. Its registered office is at P.O. Box 309, Grand Cayman, Cayman Islands, British West Indies and the principal place of business in Hong Kong is at Room Nos. 1120-1126, 11/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company comprise those of investment holding.

The principal activities and other particulars of the subsidiaries are set out in note 32 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 12 to the financial statements.

Further discussions and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Business Review section set out on pages 9 to 12 of the annual report. The discussion forms part of this directors' report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales of goods/rendering of services and purchases/service rendered attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales of goods/ Rendering of services	**Purchases/ Service rendered**
The largest customer	14%	
Five largest customers in aggregate	39%	
The largest supplier		31%
Five largest suppliers in aggregate		76%

Saved as disclosed herein, at no time during the year have the Directors, their associates or any Shareholder of the Company (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

RECOMMENDED DIVIDEND

The Directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: nil). No interim dividend was paid for the year ended 31 December 2018 (2017: nil).

Directors' Report
for the year ended 31 December 2018

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year (2017: nil).

SHARE CAPITAL

The Company did not issue any shares during the year.

DEBENTURE

The Company did not issue any debenture during the year.

RESERVES

Details of the movements in the reserves of the Group during the year are shown in the consolidated statement of changes in equity on pages 45 to 46.

DISTRIBUTABLE RESERVES

Details of the movements in the distributable reserves of the Group during the year are shown in the consolidated statement of changes in equity on pages 45 to 46.

SHARE AWARD SCHEME

On 9 December 2016, the Company adopted a share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares (the "Award Shares") to any Directors, employees or third party service providers of the Group (the "Beneficiary" or "Beneficiaries") as incentives and rewards so as (i) to provide the Beneficiaries with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain the Beneficiaries to work with the Group; and (iii) to provide additional incentive for the Beneficiaries to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the Beneficiaries directly to the shareholders of the Company through ownership of shares subject to such conditions as the Board may deem appropriate at its discretion.

DETERMINATION OF PROPOSED BENEFICIARIES

The grant of Award Shares under the Share Award Scheme to any eligible person will be proposed by the Remuneration Committee and approved by the Board. The Board shall:

(i) consider whether to accept the proposal from the Remuneration Committee (with or without amendments); and

(ii) if the proposal is accepted (with or without amendments), select from among the proposed eligible person those persons who will be entitled to receive Award Shares under the Share Award Scheme and determine the number of Award Shares that each proposed beneficiary will be entitled to be granted.

The selection of proposed beneficiaries and determination of the number of Award Shares to which each proposed Beneficiary will be entitled will be made pursuant to a resolution of the Remuneration Committee.

Directors' Report
for the year ended 31 December 2018

GRANT OF AWARD SHARES

The Company will notify each relevant proposed Beneficiary of his entitlement to Award Shares by way of a notice of award. The notice of award will specify the terms and conditions of the award and the Share Award Scheme such as the number of Award Shares entitled, the vesting criteria and conditions, the vesting date and such other details as the Board may consider necessary.

Each grant of Award Shares under the Share Award Scheme to any connected person shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed Beneficiary). If any proposed grant of Award Shares to any connected person in relation to the Company or any of its subsidiaries under the Share Award Scheme would result in the total number of Award Shares being issued to such connected person during the 12-month period immediately preceding the date of such proposed grant exceeding 1% of the total issued share capital of the Company as at the date of such proposed grant, then such proposed grant must be approved by the Shareholders of the Company in a general meeting at which such connected person and his associates shall abstain from voting. The Company will comply with the relevant requirements under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for any grant and issue of shares to connected persons of the Company.

MAXIMUM NUMBER OF AWARD SHARES GRANT

The aggregate number of Award Shares, whether they are new shares to be allotted and issued by the Company or existing shares to be purchased on-market by the Trustee, underlying all grants made pursuant to the Share Award Scheme shall not exceed in total 10% of the Company's issued share capital as at the adoption date.

RIGHTS ATTACHED TO THE AWARD SHARES

Any Award Shares transferred to a Beneficiary pursuant to the Share Award Scheme will be subject to all the provisions of the Articles of the Company and will form a single class with the fully paid shares in issue on the relevant date.

SHARES AWARDED

The Board has resolved to award an aggregate of 37,862,500 shares ("Connected Award Shares") to Mr. Jiang Yulin, the Chairman of the Board and an executive Director, on 9 December 2016. The issue and allotment of new shares to Mr. Jiang has been approved by the independent Shareholders of the Company at its extraordinary general meeting ("EGM") on 29 March 2018.

37,862,500 shares will be issued and allotted by the Company to Mr. Jiang by six batches (subject to fulfilment of the vesting conditions):

Batch	Date	Number of shares to be vested
1	30 September 2018	3,786,250
2	31 March 2019	3,786,250
3	31 March 2020	7,572,500
4	31 March 2021	7,572,500
5	31 March 2022	7,572,500
6	31 March 2023	7,572,500

Directors' Report
for the year ended 31 December 2018

VESTING CONDITIONS

(i) the approval by the independent Shareholders at the EGM in respect of the issue and allotment of the Connected Award Shares pursuant to the specific mandate obtained at the EGM;

(ii) the granting of the listing and dealing approval by the Hong Kong Stock Exchange in respect of the Connected Award Shares;

(iii) the achievement of (i) a growth rate of not less than 10% on the average closing market capitalisation of the Company (the "Average Market Capitalisation") throughout the first half of year 2018 based on the 30 days average closing market capitalisation of the Company immediately preceding the date of adoption of the Share Award Scheme (the "Benchmark Market Capitalisation"); (ii) a growth rate of not less than 15% on the average closing market capitalisation of the Company throughout the second half of year 2018 based on the Benchmark Market Capitalisation; and (iii) expected return on equity (the "Expected ROE") by the Company in each of the second to fifth year as recommended by the Remuneration Committee and approved by the Board from time to time, taking into account the economic environment and other appropriate factors as it thinks fit. The Remuneration Committee may also make recommendations on any adjustments for the forthcoming year for the Board's approval, taking into account the above factors. In any event, the Expected ROE will not be less than 12% (the "Minimum Expected ROE").

In determining whether the growth rate of the average closing market capitalisation of the Company (the "Average Cap. Growth") is met, the Company will calculate the Average Cap. Growth for each of the first half and second half of year 2018 based on the following formula:

For the first half of year 2018:

$$\text{Increase in market capitalisation of the Company} = \frac{\text{Average Market Capitalisation}}{\text{Benchmark Market Capitalisation}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalisation shall be calculated by dividing the sum of market capitalisation of the Company for the period commencing on 1 January 2018 and ending on 30 June 2018 (both dates inclusive) (the "2018 First Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalisation shall be calculated by the sum of market capitalisation of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

The first batch of the Connected Award Shares was not vested to Mr. Jiang on 30 September 2018 since the increase in market capitalisation of the Company for the 2018 First Six-Month Period is less than 10%.

Directors' Report

for the year ended 31 December 2018

VESTING CONDITIONS (cont'd)

For the second half of year 2018:

$$\text{Increase in market capitalisation of the Company} = \frac{\text{Average Market Capitalisation}}{\text{Benchmark Market Capitalisation}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalisation shall be calculated by dividing the sum of market capitalisation of the Company for the period commencing on 1 July 2018 and ending on 31 December 2018 (both dates inclusive) (the "2018 Second Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalisation shall be calculated by the sum of market capitalisation of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

The second batch of the Connected Award Shares was not vested to Mr. Jiang on 31 March 2019 since the increase in market capitalisation of the Company for the 2018 Second Six-Month Period is less than 15%.

In determining whether the Expected ROE is met, the Company will calculate the ROE of each year based on the following formula:

$$\text{Expected ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Where,

(a) Net Income shall be the net profit before taxation, interest, amortisation and extraordinary item(s) of non-recurring in nature as shown in the latest published audited consolidated financial results of the Group before the relevant vesting date; and

(b) Shareholders' Equity shall be the total equity attributable to equity shareholders of the Company as shown in the audited consolidated financial results of the Group published in the year preceding the relevant vesting date.

The remaining batches of the Connected Award Shares with the vesting dates on 31 March 2020, 2021, 2022 and 2023 respectively shall vest if the ROE for the respective year is not less than 12%.

Any change in the above vesting conditions (including the Minimum Expected ROE) will be subject to the approval by the independent Shareholders.

SHARE OPTION SCHEME

The Company does not have any share option scheme.

DIRECTORS

The Directors of the Company during the financial year and up to the date of this annual report were as follows:

Executive Directors
Mr. Jiang Yulin, Chairman
Ms. Zhang Xian

Directors' Report
for the year ended 31 December 2018

DIRECTORS (cont'd)

Independent non-executive Directors
Mr. Hu Baihe
Mr. Yuen Kwok Kuen
Mr. Guo Jingbin

In accordance with Article 116 of the Articles of Association of the Company, one third of the present Directors will retire from office by rotation at the forthcoming Annual General Meeting. Mr. Hu Baihe and Mr. Guo Jingbin shall retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. Jiang Yulin, *aged 60*
Chairman and Executive Director

Mr. Jiang Yulin ("Mr. Jiang") was appointed as an executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Jiang was appointed as the Chairman of the Board and the member of the Nomination Committee of the Company.

Mr. Jiang holds a doctorate degree in Economics from Wuhan University and is a senior economist and registered accountant. Mr. Jiang has published several journals and certain books in relation to the banking industry and risk prevention. Mr. Jiang has over 30 years of banking experience and has extensive experience in financing, investment and management.

Mr. Jiang had worked in Industrial and Commercial Bank of China (Asia) Limited ("ICBC") for more than 30 years. From 1985 to 1997, Mr. Jiang had been appointed as Deputy President of ICBC's bank branches of county-level cities and prefecture-level cities. In September 1997, Mr. Jiang had been appointed as President of ICBC's prefecture-level cities bank branch in Wuhu. In 2000, Mr. Jiang had been appointed as Deputy President of ICBC's provincial bank branch in Anhui. Since 2000, Mr. Jiang had been appointed as Deputy President of ICBC's provincial bank branches. At the same time, he also served as an independent supervisor of Maanshan Iron & Steel Company Limited, one of the largest iron and steel producers and marketers in the People's Republic of China, which is listed on the Shanghai Stock Exchange (Stock Code: 600808) and the Hong Kong Stock Exchange (Stock Code: 323), from 2002 until 2005. In 2006, Mr. Jiang was promoted to President of ICBC's provincial bank branch in Yunnan. Since 2011, Mr. Jiang had been an editorial committee member of ICBC's monthly financial magazine "China Urban Finance", he is responsible for the content review and publication, the magazine targeted to bankers, securities professionals, executives in commerce and industrial sectors as well as research team of financial institutions, content of which include China and overseas government policy report in economics and finance, economy and financial, progress of hot industries, latest moves of global banks and challenges they faced etc. In 2010, Mr. Jiang was appointed as the General Manager of the credit business department of ICBC and subsequently, assumed the role as General Manager of the information management department of the ICBC in 2014. Since 2015, Mr. Jiang had been the board chairman of ICBC Financial Leasing Co., Ltd.; a wholly-owned subsidiary of ICBC, and held concurrent posts as the board chairman of ICBC (Moscow) Limited; a wholly-owned subsidiary of ICBC, and a non-executive director, chairman of risk management committee and a member of the audit committee of ICBC. In 2016, Mr. Jiang resigned from ICBC and joined the Company.

Mr. Jiang did not hold any other directorships in listed public companies in the last three years.

Directors' Report
for the year ended 31 December 2018

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT (cont'd)

Directors (cont'd)

Ms. Zhang Xian, *aged 34*
Executive Director and Chief Executive Officer

Ms. Zhang Xian ("Ms. Zhang") was appointed as an executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Ms. Zhang was appointed as the member of the Remuneration Committee of the Company.

Ms. Zhang holds a Master's degree in Economics from Beijing University. Ms. Zhang worked in the investment banking and private equity investment industries for 8 years with a wealth of experience in domestic and overseas transaction execution. She has worked for China International Capital Corporation for more than 4 years, mainly responsible for mergers and acquisitions.

Ms. Zhang did not hold any other directorships in listed public companies in the last three years.

Mr. Hu Baihe, *aged 56*
Independent non-executive Director

Mr. Hu Baihe ("Mr. Hu") was appointed as an independent non-executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Hu was appointed as the Chairman of the Nomination Committee and members of the Audit Committee and Remuneration Committee of the Company.

Mr. Hu graduated from Jiangxi University of Finance and Economics. He is a senior accountant, certified public accountant, certified public valuer and certified tax agent in the PRC. He has extensive experience in the finance field. Mr. Hu is currently the general manager of Peking Certified Public Accountants. Before he joined Peking Certified Public Accountants in 1993, he had over 7 years of working experience with the Ministry of Finance of the PRC. Mr. Hu is an independent non-executive director of China Ocean Industry Group Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 651).

Saved as disclosed herein, Mr. Hu did not hold any other directorships in listed public companies in the last three years.

Mr. Yuen Kwok Kuen, *aged 45*
Independent non-executive Director

Mr. Yuen Kwok Kuen ("Mr. Yuen") was appointed as an independent non-executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Yuen was appointed as the Chairman of the Audit Committee and members of the Nomination Committee and Remuneration Committee of the Company.

Mr. Yuen obtained the Bachelor of Business from Monash University (Australia) in 1998 and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and the CPA Australia respectively. Mr. Yuen has 17 years of experience in audit, tax, initial public offering, mergers and acquisitions and corporate services. Mr. Yuen is the company secretary of China Household Holdings Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 692).

Saved as disclosed herein, Mr. Yuen did not hold any other directorships in listed public companies in the last three years.

Directors' Report

for the year ended 31 December 2018

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT (cont'd)

Directors (cont'd)

Mr. Guo Jingbin, *aged 61*
Independent non-executive Director

Mr. Guo Jiangbin ("Mr. Guo") was appointed as an independent non-executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Guo was appointed as the Chairman of the Remuneration Committee and members of the Nomination Committee and Audit Committee of the Company.

Mr. Guo graduated from Shanghai Construction Materials College in 1980. In 1998, Mr. Guo received a Master of Business Administration degree from the Post-graduate College of the Social Science Institute of China.

Mr. Guo is a director of Anhui Conch Group Company Limited. Mr. Guo has been an executive director of Anhui Conch Cement Company Limited, which is listed on the Shanghai Stock Exchange (Stock Code: 600585) and the Hong Kong Stock Exchange (Stock Code: 914), from September 1997 to June 2014 and was re-designated as a non-executive director of Anhui Conch Cement Company Limited until May 2016. Mr. Guo has been a non-executive director and chairman of China Conch Venture Holdings Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 586), from June 2013 to June 2014. Since then, Mr. Guo has been the executive director and the chairman of China Conch Venture Holdings Limited. He is primarily responsible for overall strategic development of China Conch Venture Holdings Limited. Mr. Guo is also an independent non-executive director of China Logistics Property Holdings Co., Ltd., which is listed on the Hong Kong Stock Exchange (Stock Code: 1589). Mr. Guo has over 30 years' experience in the building materials industry and in capital markets, particularly specializing in corporate strategic planning, marketing planning and general and administration management.

Saved as disclosed herein, Mr. Guo did not hold any other directorships in listed public companies in the last three years.

Senior Management

Mr. Rodrigo Jimenez, *aged 52*
Chief Executive Officer, Sceptre Hospitality Resources, LLC ("SHR")

Mr. Jimenez was appointed as Chief Executive Officer of SHR on 23 July 2015.

Mr. Jimenez has a long history in the hospitality technology space, starting with Webvertising, the company that created the iHotelier Central Reservations System. In 2004, he co-founded Whiteboard Labs, which produced the Windsurfer CRS in 2009. Since then, in 2012, Whiteboard Labs merged with Sceptre to create SHR and he has been successfully leading SHR through great growth since its inception.

Prior to his time in the technology sector, Mr. Jimenez spent 10 years in the banking industry where he advised a large number of companies in a wide-range of industries and countries. During this time, he was a vice president in the Latin America corporate banking group of Bank of America and also served as vice president and client advisor in the International Department of the Chase Manhattan Bank in Houston. In that capacity, he advised subsidiaries of multinational companies in corporate finance and investment banking matters.

Mr. Jimenez is a graduate of the Financial Management Program at Stanford University and was a participant in the 1999 Focused Financial Management Series at Harvard Business School. He holds a B.B.A. in Marketing and an M.B.A. in International Business & Finance from the University of Houston.

Directors' Report

for the year ended 31 December 2018

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

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

Name of Director	Capacity/Nature of Interest	Number of Shares Award	Percentage Holding in the Company
Jiang Yulin	Beneficial owner/Beneficial interest	34,076,250	8.54%

The Board has resolved to award an aggregate of 37,862,500 shares to Mr. Jiang Yulin, the Chairman of the Board and an executive Director, on 9 December 2016. The aforesaid award to Mr. Jiang Yulin was approved at the Extraordinary General Meeting held on 29 March 2018. The shares will be issued and allotted to Mr. Jiang Yulin by six batches (subject to the fulfilment of the vesting conditions as discussed on pages 25 to 26 of the annual report), with the first vesting date being 30 September 2018. Given the vesting conditions of the first and second batch of the Connected Award Shares are not met, the first and second batch of the Connected Award Shares were not issued and allotted to Mr. Jiang Yulin and were forfeited and lapsed. As such, the number of shares of the Company that Mr. Jiang Yulin is interested in since 31 March 2019 is reduced from 34,076,250 to 30,290,000.

Save as disclosed herein, as at 31 December 2018, none of the Directors and the chief executives of the Company or their associates were interested or had any short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2018, so far is known to any Directors or the chief executives of the Company, the following persons (excluding the Directors and the chief executives of the Company) were interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Percentage Holding in the Company
Prudential Brokerage Limited	Person having security interest in shares	249,539,294	62.54%
Dong Jufeng (Note)	Interest of spouse/ Family interest	266,069,294	66.69%
Jia Tianjiang (Note)	Interest of controlled corporation/ Corporate interest	266,069,294	66.69%
China Tian Yuan Manganese Limited (Note)	Beneficial owner/ Beneficial interest	249,539,294	62.54%
	Person having security interest in shares	16,530,000	4.14%
Ningxia Tianyuan Manganese Industry Co., Ltd. (Note)	Interest of controlled corporation/ Corporate interest	266,069,294	66.69%

Note: China Tian Yuan Manganese Limited is a wholly owned subsidiary of Ningxia Tianyuan Manganese Industry Co., Ltd., a corporation controlled by Mr. Jia Tianjiang. By virtue of the SFO, Ningxia Tianyuan Manganese Industry Co., Ltd., Mr. Jia Tianjiang and his spouse, Ms. Dong Jufeng, are deemed to be interested in the 266,069,294 shares of the Company of which China Tian Yuan Manganese Limited is interested in.

Save as stated above, no person (excluding the Directors and the chief executives of the Company) was interested in or had a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2018.

Directors' Report

for the year ended 31 December 2018

INDEMNITY OF DIRECTORS

Pursuant to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his/her office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed herein, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries, fellow subsidiaries or holding company a party to any arrangements to enable any Director of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

CONTROLLING SHAREHOLDERS' INTEREST

Save as disclosed herein, apart from transactions carried out in the normal course of business, there were no contracts of significance between the Company or any of its subsidiaries and a controlling Shareholder or any of its subsidiaries or any contracts of any significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

On 29 March 2018, the issue and allotment of new shares of the Company to Mr. Jiang, the executive Director, was approved by the shareholders of the Company at its extraordinary general meeting. Mr. Jiang is a director of the Company and accordingly a connected person of the Company. Therefore, the issue and allotment of 37,862,500 new shares of the Company to Mr. Jiang, subject to and on the conditions contained in the Share Award Scheme of the Company, adopted on 9 December 2016, constituted a connected transaction of the Company. Details of the issuance and allotment of new shares of the Company to Mr. Jiang were set out in the circular of the Company dated 5 March 2018 and the section headed "Shares awarded" in the Directors' Report contained herein.

Provision of Procurement, Marketing and Management Services and Trademark Licensing

On 31 August 2017, the last tranche of the subscription and acquisition of approximately 51% of the entire issued share capital of PRIP Communications Limited ("PRIP") was completed. Accordingly, PRIP is owned approximately 51% and 45.82% by the Company and Dr. Sang Woo Lee, respectively. Thus, as at 31 August 2017, PRIP has become a subsidiary of the Company and DIAM Holdings Co., Ltd. ("DIAM"), the Korean subsidiary of PRIP, has become an indirect subsidiary of the Company. As such, Dr. Sang Woo Lee and DA Plastic Surgery Clinic (a Korean clinic owned by Dr. Sang Woo Lee) have become connected persons at the subsidiary level of the Company. The transactions between DA Plastic Surgery Clinic and PRIP and DIAM subsequently constitute continuing connected transactions.

Directors' Report

for the year ended 31 December 2018

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (cont'd)

Provision of Procurement, Marketing and Management Services and Trademark Licensing (cont'd)

Procurement, Marketing and Management Services and licensing of trademarks are provided by the Group to DA Plastic Surgery Clinic. The terms of the transactions were determined after taking various factors into account and after arm's length negotiation between the parties. Details of the transactions were set out in the announcement of the Company dated 4 September 2017. The cap amount for Procurement, Marketing and Management Services and Trademark Licensing is set out below:

	Procurement, Marketing and Management Services US$'000	Aggregate Monthly Royalty US$'000	Total US$'000
1 September to 31 December 2017	1,034	382	1,416
Year ended 31 December 2018	3,649	1,249	4,898
Year ending 31 December 2019	4,382	1,249	5,631
1 January to 28 May 2020	2,198	624	2,822

The total revenue generated from the provision of Procurement, Marketing and Management Services and Trademark Licensing for the year ended 31 December 2018 (2017: 1 September to 31 December 2017) amounted to US$1,993,624 (2017: US$510,091) and US$1,040,580 (2017: US$346,860) respectively.

All the independent non-executive Directors have reviewed the Continuing Connected Transactions in the 2018 financial year and confirmed that those transactions had been entered into:

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

(ii) either on normal commercial terms or, better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company, KPMG LLP, have confirmed in a letter to the Board that nothing has come to their attention that caused them to believe that the Continuing Connected Transactions in the 2018 financial year:

(i) had not been approved by the Board of the Company;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(iii) were not entered into in all material respects in accordance with the relevant agreement governing such transactions; and

(iv) had exceeded the cap amount of US$4.898 million disclosed in the announcement of the Company dated 4 September 2017.

Directors' Report
for the year ended 31 December 2018

Other Related Party Transactions

Other material related party transactions are set out in note 36 to the financial statements, which either fall under the definition of "Continuing Connected Transactions" in Chapter 14A of the Listing Rules and are exempted under the Listing Rules or does not fall into the definition of "connected transaction" or "continuing connected transaction". The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of its connected transactions or continuing connected transactions.

SERVICE CONTRACTS OF DIRECTORS

Each executive Director has entered into a service agreement with the Company for a specific term of 2 years, subject to retirement by rotation according to the Articles of Association of the Company.

Each independent non-executive Director has entered into an appointment letter with the Company for a specific term of 2 years, subject to retirement by rotation according to the Articles of Association of the Company.

None of the Directors has a service contract with the Company or its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

Under present Cayman Islands laws and the Articles of Association of the Company, no pre-emptive rights are imposed which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete either directly or indirectly with the businesses of the Group as are required to be disclosed pursuant to the Listing Rules.

Directors' Report

for the year ended 31 December 2018

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's shares.

PLEDGE OF ASSETS

At 31 December 2018, property, plant and equipment of the Group with a carrying amount of HK$35,551,000 (2017: HK$36,209,000) were pledged as security to secure bank loans.

EXCHANGE RATES AND RELATED HEDGES

A discussion on the Company's exposure to fluctuations in exchange rates and any related hedges is set out in noted 35(d) to the financial statements.

CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 31 December 2018.

EQUITY-LINKED AGREEMENT

Apart from the Share Award Scheme adopted by the Company as set forth in note 30 to the financial statements, the Company has not entered into any equity-linked agreement during the year or there was not any subsisting equity-linked agreement entered into by the Company at the end of the reporting year.

CONFIRMATION OF INDEPENDENCE

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

AUDITORS

KPMG LLP will retire and, being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting of the Company. A resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

There is no change of auditor in the preceding three years.

On behalf of the Board

JIANG YULIN
Chairman

26 April 2019

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited
(Incorporated in the Cayman Islands with limited liability)
for the year ended 31 December 2018

OPINION

We have audited the consolidated financial statements of China Tian Yuan Healthcare Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 41 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA 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.

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited
(Incorporated in the Cayman Islands with limited liability)
for the year ended 31 December 2018

Goodwill Impairment Assessment

Refer to note 15 to the consolidated financial statements for goodwill impairment assessment and note 1(i) to the consolidated financial statements for the accounting policies on goodwill.

The Key Audit Matter	How the matter was addressed in our audit
The Group has recognised goodwill arising from business acquisitions. The goodwill is subject to annual impairment assessment which involves the estimation of the recoverable amount. The Group has engaged external valuers to estimate the recoverable amount. The estimation is complex and is dependent on assumptions about the future. Specifically, significant judgement is required in relation to the appropriate use of discount rates, capitalisation rates, terminal values and the resulting forecast cash flows in determining the value in use. Therefore, this is one of the key judgemental areas that we have focused in our audit.	Our audit procedures for the assessment of goodwill impairment included the following: • assessed the competency, professional qualifications and objectivity of the independent valuers; • evaluated the valuation methodology used by the valuers, checked for compliance with the relevant accounting standards and alignment to market practice; • challenged the key assumptions used in determining the recoverable amounts of the cash generating units. This included a comparison of the assumptions with externally derived data including external industry reports. We also considered the historical accuracy of directors' estimates on the assumptions; and • considered the appropriateness of the disclosures in the consolidated financial statements about the methodologies used and the key assumptions applied.

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited
(Incorporated in the Cayman Islands with limited liability)
for the year ended 31 December 2018

Recoverability of outstanding loans arising from money lending and related business activities

Refer to note 21 to the consolidated financial statements for the loan receivables and note 1(n) to the consolidated financial statements for the accounting policies on impairment of loan receivables.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, the Group has loan receivables from external parties amounting to HK$172 million (2017: HK$113 million) which represent 24% (2017: 16%) of its total assets. These receivables are subject to credit risk. We identified the assessment of the recoverability of these loan receivables as a key audit matter because this assessment is subjective due to the judgement applied by management in ascertaining the repayment ability of the borrowers which in turn, affects the recoverability of the outstanding loans.	Our audit procedures for the assessment of the recoverability of the outstanding loan receivables included the following: • evaluated the controls over management's assessment of the borrowers' financial conditions and their repayment ability; • assessed the recoverable amounts taking into consideration the realisation of collaterals, if any, and other possible sources of repayment, including personal guarantee provided by individual or corporate guarantors in favour of the borrowers. • compared the estimated recoverable amounts with the outstanding loan receivable balances and considered any shortfall for impairment allowance to be recognised; and • discussed with management on the adequacy of allowance for impairment loss, if any, on the outstanding loan receivables.

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited
(Incorporated in the Cayman Islands with limited liability)
for the year ended 31 December 2018

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited (Incorporated in the Cayman Islands with limited liability) for the year ended 31 December 2018

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited
(Incorporated in the Cayman Islands with limited liability)
for the year ended 31 December 2018

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tay Puay Cheng.

KPMG LLP
Public Accountants and Chartered Accountants
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

26 April 2019

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018

	Note	2018 HK$'000	2017 (Note) HK$'000
Revenue	3	**171,556**	175,280
Cost of sales		**(22,032)**	(23,228)
Gross profit		**149,524**	152,052
Other net gains	4	**6,933**	25,915
Administrative expenses		**(192,500)**	(175,344)
(Loss)/Profit from operating activities		**(36,043)**	2,623
Finance costs	5	**(1,283)**	(2,025)
Share of loss of a joint venture (net of tax)		**–**	(8)
Share of (loss)/profit of associates (net of tax)		**(2,346)**	312
(Loss)/Profit before taxation	5	**(39,672)**	902
Income tax expense	6(a)	**(375)**	(2,330)
Loss for the year		**(40,047)**	(1,428)
Attributable to:			
Equity shareholders of the Company	9	**(27,622)**	14,877
Non-controlling interests		**(12,425)**	(16,305)
Loss for the year		**(40,047)**	(1,428)
		HK cents	**HK cents**
Earnings per share	10		
Basic (loss)/earnings per share		**(6.92)**	3.83
Diluted (loss)/earnings per share		**(6.92)**	3.83

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 49 to 143 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Note	2018 HK$'000	2017 (Note) HK$'000
Loss for the year		**(40,047)**	(1,428)
Other comprehensive income for the year (after taxation):	11		
Items that will not be reclassified subsequently to profit or loss:			
Financial assets at FVOCI - net movement in fair value reserves (non-recycling)		**(3,027)**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**42**	1,411
Exchange differences on monetary item forming net investment in a foreign operation		**(63)**	(257)
Total other comprehensive income for the year		**(3,048)**	1,154
Total comprehensive income for the year		**(43,095)**	(274)
Attributable to:			
Equity shareholders of the Company		**(30,858)**	15,929
Non-controlling interests		**(12,237)**	(16,203)
Total comprehensive income for the year		**(43,095)**	(274)

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 49 to 143 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2018

	Note	2018 HK$'000	2017 (Note) HK$'000
Non-current assets			
Property, plant and equipment	13	**53,845**	55,383
Intangible assets	14	**142,653**	161,311
Goodwill	15	**95,016**	94,837
Interests in associates	16	**8,367**	6,682
Other financial assets	18	**538**	31,441
Trade and other receivables	19	**23,779**	28,567
Total non-current assets		**324,198**	378,221
Current assets			
Other financial assets	18	**7,813**	–
Trade and other receivables	19	**70,001**	42,669
Trading securities	20	**16,730**	47,077
Loan receivables	21	**171,699**	113,408
Current tax recoverable	6(c)	**485**	2,884
Cash and cash equivalents	22	**114,346**	134,857
		381,074	340,895
Current liabilities			
Trade and other payables	23	**(35,312)**	(33,578)
Deferred consideration	24	**(1,728)**	–
Interest-bearing borrowings	25	**(960)**	(922)
Loans from non-controlling interests	26	**(21,961)**	–
Provision for taxation		**(2,995)**	(2,600)
		(62,956)	(37,100)
Net current assets		**318,118**	303,795
Total assets less current liabilities		**642,316**	682,016
Non-current liabilities			
Deferred rental expense		**(1,897)**	(586)
Deferred consideration	24	**–**	(1,719)
Interest-bearing borrowings	25	**(28,041)**	(28,946)
Loans from non-controlling interests	26	**(11,940)**	(42,787)
Dividends received in excess of earnings from equity-method accounted joint venture	27	**(227)**	(227)
Deferred tax liabilities	28	**(15,938)**	(15,908)
Other financial liabilities	29	**(8,272)**	(16,787)
		(66,315)	(106,960)
NET ASSETS		**576,001**	575,056

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 49 to 143 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2018

	Note	2018 HK$'000	2017 (Note) HK$'000
Capital and reserves	30		
Share capital		**398,980**	398,980
Share premium		**20,663**	20,663
Reserves		**66,305**	68,134
Total equity attributable to equity shareholders of the Company		**485,948**	487,777
Non-controlling interests	31	**90,053**	87,279
TOTAL EQUITY		**576,001**	575,056

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

Approved and authorised for issue on behalf of the board of directors on 26 April 2019.

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Jiang Yulin
Chairman

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Zhang Xian
Chief Executive Officer

The notes on pages 49 to 143 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

	Attributable to equity shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Revenue reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2017	382,450	–	676	(491)	52,020	434,655	34,588	469,243
Changes in equity for 2017:								
Profit/(Loss) for the year	–	–	–	–	14,877	14,877	(16,305)	(1,428)
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translation of financial statements of foreign operations	–	–	–	1,309	–	1,309	102	1,411
Exchange differences on monetary item forming net investment in a foreign operation	–	–	–	(257)	–	(257)	–	(257)
Total other comprehensive income	–	–	–	1,052	–	1,052	102	1,154
Total comprehensive income for the year	–	–	–	1,052	14,877	15,929	(16,203)	(274)
Transactions with owners, recognised directly in equity								
Contributions by owners of the Company								
Issue of ordinary shares related to business combination	16,530	20,663	–	–	–	37,193	–	37,193
Total contributions by owners	16,530	20,663	–	–	–	37,193	–	37,193
Changes in ownership interests in subsidiaries								
Acquisition of subsidiary with non-controlling interest	–	–	–	–	–	–	68,894	68,894
Total changes in ownership interest in subsidiaries	–	–	–	–	–	–	68,894	68,894
Balance at 31 December 2017	398,980	20,663	676	561	66,897	487,777	87,279	575,056

The notes on pages 49 to 143 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Attributable to equity shareholders of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Revenue reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2018 (Note)	398,980	20,663	676	561	–	66,897	487,777	87,279	575,056
Impact on initial application of HKFRS 9	–	–	–	–	29,029	–	29,029	(1,297)	27,732
Adjusted balance at 1 January 2018	398,980	20,663	676	561	29,029	66,897	516,806	85,982	602,788
Changes in equity for 2018:									
Loss for the year	–	–	–	–	–	(27,622)	(27,622)	(12,425)	(40,047)
Other comprehensive income									
Items that will not be reclassified subsequently to profit or loss:									
Financial assets at FVOCI - net movement in fair value reserves (non-recycling)	–	–	–	–	(3,027)	–	(3,027)	–	(3,027)
Items that may be reclassified subsequently to profit or loss:									
Exchange differences on translation of financial statements of foreign operations	–	–	–	(146)	–	–	(146)	188	42
Exchange differences on monetary item forming net investment in a foreign operation	–	–	–	(63)	–	–	(63)	–	(63)
Total other comprehensive income	–	–	–	(209)	(3,027)	–	(3,236)	188	(3,048)
Total comprehensive income for the year	–	–	–	(209)	(3,027)	(27,622)	(30,858)	(12,237)	(43,095)
Transaction with owners, recognised directly in equity									
Contributions by and distributions to owners of the Company									
Dividend forgone by non-controlling interests	–	–	–	–	–	–	–	(4,599)	(4,599)
Capital contribution from non-controlling interests by way of capitalisation (Note 26)	–	–	–	–	–	–	–	20,907	20,907
Total contributions by and distributions to owners of the Company	–	–	–	–	–	–	–	16,308	16,308
Balance at 31 December 2018	398,980	20,663	676	352	26,002	39,275	485,948	90,053	576,001

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 49 to 143 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2018

	Note	2018 HK$'000	2017 (Note) HK$'000
Operating activities			
Loss for the year		**(40,047)**	(1,428)
Income tax expense	6(a)	**375**	2,330
(Loss)/Profit before taxation		**(39,672)**	902
Adjustments for:			
Amortisation of intangible assets	5	**20,045**	8,486
Depreciation of property, plant and equipment	5	**4,003**	3,286
Dividend income	3	**(218)**	(997)
Finance costs	5	**1,283**	2,025
Plant and equipment written off	4	**94**	1,356
Interest income	3	**(26,198)**	(8,190)
Impairment loss on investment in an associate	4	**–**	1,792
Impairment loss on goodwill	4	**–**	1,710
Net realised and unrealised foreign exchange gain	4	**(137)**	(4,772)
Net realised and unrealised valuation loss/(gain) on trading securities	4	**936**	(25,457)
Net realised and unrealised gain on financial assets/liabilities	4	**(7,804)**	–
Share of loss of a joint venture		**–**	8
Share of loss/(profit) of associates		**2,346**	(312)
Reversal of impairment loss on trade and other receivables	5	**(145)**	(178)
		(5,795)	(21,243)
Operating loss before changes in working capital		**(45,467)**	(20,341)
Changes in working capital			
Loan receivables		**(58,291)**	(113,408)
Trade and other receivables		**(11,300)**	(35,353)
Trade and other payables		**3,046**	5,228
Cash used in operations		**(112,012)**	(163,874)
Interest received		**14,007**	5,585
Dividend received		**218**	997
Tax refund/(paid) – overseas tax		**2,225**	(9)
Net cash used in operating activities		**(95,562)**	(157,301)

The notes on pages 49 to 143 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Note	2018 HK$'000	2017 (Note) HK$'000
Investing activities			
Acquisition of interest in subsidiaries (net of cash acquired)	33	**–**	(121,889)
Acquisition of interest in associate		**(4,022)**	(1,792)
Payment for web development costs		**(1,877)**	(3,382)
Dividends received from associates		**–**	132
Purchase of property, plant and equipment		**(2,410)**	(18,495)
Proceeds from disposal of an associate		**–**	2,286
Proceeds from sale of trading securities		**29,341**	52,662
Return of capital from financial assets		**43,800**	–
Net cash generated from/(used in) investing activities		**64,832**	(90,478)
Financing activities			
Increase in cash pledged		**(498)**	(407)
Interest paid	22(b)	**(1,327)**	(1,231)
Increase in loan from non-controlling interests	22(b)	**11,927**	39,740
Repayment of interest-bearing borrowings	22(b)	**(1,298)**	(880)
Net cash generated from financing activities		**8,804**	37,222
Net decrease in cash and cash equivalents		**(21,926)**	(210,557)
Cash and cash equivalents at 1 January		**132,294**	337,789
Effect of foreign exchange rate changes		**917**	5,062
Cash and cash equivalents at 31 December	22	**111,285**	132,294

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 49 to 143 form part of these financial statements.

Notes to the Financial Statements

31 December 2018

These notes form an integral part of the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint arrangements.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments at fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL") (2017: financial instruments classified as available-for-sale or as trading securities) (note 1(j)) are stated at their fair value as explained in the accounting policies.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Changes in Accounting Policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on reserves at 1 January 2018.

	HK$'000
Fair value reserve (non-recycling)	
Increase in fair value reserve (non-recycling) at 1 January 2018	29,029

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

Notes to the Financial Statements

31 December 2018

1. **SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

(c) Changes in Accounting Policies (cont'd)

(i) HKFRS 9, Financial instruments (cont'd)

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9:

	HKAS 39 carrying amount at 31 December 2017 HK$'000	Reclassification HK$'000	Remeasurement HK$'000	**HKFRS 9 carrying amount at 1 January 2018 HK$'000**
Financial assets carried at amortised cost				
Cash and cash equivalents	134,857	–	–	**134,857**
Trade and other receivables (note (iii))	71,236	–	–	**71,236**
Loan receivables	113,408	–	–	**113,408**
	319,501	–	–	**319,501**
Financial assets measured at FVOCI (non-recyclable)				
Other financial assets (note (i))	–	18,321	29,029	**47,350**
Financial assets carried at FVPL				
Trading securities (note (ii))	47,077	–	–	**47,077**
Other financial assets (note (ii))	13,120	–	–	**13,120**
	60,197	–	–	**60,197**
Financial assets classified as available-for-sale under HKAS 39				
Other financial assets (note (i))	18,321	(18,321)	–	**–**

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Changes in Accounting Policies (cont'd)

(i) HKFRS 9, Financial instruments (cont'd)

a. Classification of financial assets and financial liabilities (cont'd)

Notes:

(i) Under HKAS 39, other financial assets not held for trading were classified as available-for-sale financial assets. These investments are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment in BEA Blue Sky Real Estate Fund LP at FVOCI, as the investment is held for strategic purposes (see note 18).

(ii) Trading securities and other financial assets were classified as financial assets at FVPL under HKAS 39. These assets continue to be measured at FVPL under HKFRS 9.

(iii) Trade and other receivables include prepayments

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 1(j), (n)(i), (o) and (p).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Changes in Accounting Policies (cont'd)

(i) HKFRS 9, Financial instruments (cont'd)

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, and loan receivables).

For further details on the Group's accounting policy for accounting for credit losses, see notes 1(n) and 35.

The adoption of HKFRS 9 did not result in any differences between the loss allowance as at 1 January 2018 as compared to the loss allowance determined in accordance with HKAS 39.

c. Hedge accounting

The Group has elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking. The adoption of HKFRS 9 has not had a significant impact on the Group's financial statements in this regard.

For an explanation of how the Group applies hedge accounting, see Note 35.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Changes in Accounting Policies (cont'd)

(i) HKFRS 9, Financial instruments (cont'd)

d. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Changes in Accounting Policies (cont'd)

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue from the provision of services was recognised over time, whereas revenue from the sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or services in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised goods or services is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; and

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

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on the Group's revenue.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Changes in Accounting Policies (cont'd)

(ii) HKFRS 15, Revenue from contracts with customers (cont'd)

b. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers.

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the Group to reflect the effect of the financing benefit obtained by the Group from the customers during the period between the payment date and the completion date of legal assignment. This accrual increases the amount of the contract liability, and therefore increases the amount of revenue recognised when control of the goods or services is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23 *Borrowing costs*, in accordance with the policies set out in note 1(y).

This change in policy has had no effect on retained earnings as at 1 January 2018.

c. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 1(w)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

This change in policy has had no effect on presentation and retained earnings as at 1 January 2018.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Changes in Accounting Policies (cont'd)

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial results of the Group.

(d) Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 1(q) or 1(r) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (note 1(j)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (note 1(h)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (note 1(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Joint Arrangements

A joint arrangement is a contractual arrangement between the Group and other parties, where they have contractually agreed to share joint control, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

(g) Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Group recognises its interest in the joint operation from the date that joint control commences until the date on which the Group ceases to have joint control over the joint operation.

Unrealised profits and losses resulting from transactions between the Group and its joint operations are eliminated to the extent of the Group's interest in the joint operation, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over the joint operation, it is accounted for as a disposal of the entire interest in the joint operation, with a resulting gain or loss being recognised in profit or loss.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Associates and Joint Ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (note 1(n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, 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 that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (note 1(j)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (note 1(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 1(n)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(j) Other Investments in Debt and Equity Securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines the fair value of financial instruments, see note 35(f). These investments are subsequently accounted for as follows, depending on their classification.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Other Investments in Debt and Equity Securities (cont'd)

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Investments held by the Group are classified into one of the following measurement categories:

– amortised cost; if the investment is held for collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(w)(iv)).

– fair value through other comprehensive income ("FVOCI") – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value through profit or loss ("FVPL") if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL, unless the equity investment is not held for trading purposes and on initial recognition of the investment, the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(w)(iii).

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Other Investments in Debt and Equity Securities (cont'd)

(B) Policy applicable prior to 1 January 2018

Investments in debt and equity securities were initially stated at fair value, which is their transaction price unless it was determined that the fair value at initial recognition differs from the transaction price and that fair value was evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments were subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading were classified as current assets. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting date, the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss did not include any dividends or interest earned on these investments as these were recognised in accordance with the policies set out in notes 1(w)(iii) and 1(w)(iv), respectively.

Investments in securities which did not fall into held-for-trading or held-to-maturity categories were classified as available-for-sale securities. At the end of each reporting period, the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. The cumulative gain or loss in fair value reserve was reclassified to profit or loss when the investment is derecognised or impaired (note 1(n)). As an exception to this, investments in equity securities that did not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured were recognised in the statement of financial position at cost less impairment losses (note 1(n)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 1(w)(iii) and 1(w)(iv), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities were also recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or when they expire.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Property, Plant and Equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 1(n)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives based on the annual depreciation rates as follows:

– Building	— 2.6%
– Plant, machinery and equipment (comprising principally furniture and fixtures and office equipment)	— 6% to 33.33%
– Motor vehicles	— 20%

No depreciation is provided on freehold land.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(l) Intangible Assets (Other Than Goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where appropriate. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (note 1(n)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 1(n)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Intangible Assets (Other Than Goodwill) (cont'd)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives as follows:

– Trademarks	10 to 15 years
– Franchise application	10 years
– Technology	5 to 11 years
– Customer relations	7 to 11 years
– Customer contracts	2 to 10 years
– Web development	3 to 5 years

Both the useful life and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(m) Leased Assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(k). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(n). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Leased Assets (cont'd)

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(n) Credit Losses and Impairment of Assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, and loans receivables).

Financial assets measured at fair value, including equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and other financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables, and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable; and

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

Notes to the Financial Statements
31 December 2018

1. **SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

(n) Credit Losses and Impairment of Assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

(A) Policy applicable from 1 January 2018 (cont'd)

Measurement of ECLs (cont'd)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLS: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and loan receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Notes to the Financial Statements

31 December 2018

1. **SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

(n) Credit Losses and Impairment of Assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

(A) Policy applicable from 1 January 2018 (cont'd)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. 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 since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

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

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

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Credit Losses and Impairment of Assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

(A) Policy applicable from 1 January 2018 (cont'd)

Basis of calculation of interest income

Interest income recognised in accordance with note 1(w)(iv) 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or;

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Credit Losses and Impairment of Assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

(B) Policy applicable prior to 1 January 2018

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that were stated at cost or amortised cost or were classified as available-for-sale securities, were reviewed at the end of each reporting period to determine whether there was objective evidence of impairment. Objective evidence of impairment included observable data that came to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Credit Losses and Impairment of Assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

(B) Policy applicable prior to 1 January 2018 *(cont'd)*

(i) Impairment of investments in debt and equity securities and other receivables (cont'd)

If any such evidence exists, impairment loss was determined and recognised as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (note 1(h)), the impairment loss was measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(n)(ii). The impairment loss was reversed if there had been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(n)(ii).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment was made collectively where these financial assets share similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period, the amount of an impairment loss decreases and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss should not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Notes to the Financial Statements

31 December 2018

1. **SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

(n) Credit Losses and Impairment of Assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

(B) Policy applicable prior to 1 January 2018 *(cont'd)*

(i) Impairment of investments in debt and equity securities and other receivables (cont'd)

– For available-for-sale securities carried at fair value, the cumulative loss that had been recognised in the fair value reserve was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities carried at fair value were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

– For unquoted available-for-sale equity securities carried at cost, the impairment loss was measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost were not reversed.

  Impairment losses were written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery was considered doubtful but not remote. In this case, the impairment losses for doubtful debts were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against trade receivables directly and any amounts held in the allowance account relating to that debt were reversed. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Credit Losses and Impairment of Assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

(B) Policy applicable prior to 1 January 2018 *(cont'd)*

(ii) Impairment of other assets

Internal and external sources of information were reviewed at the end of each reporting period to identify indications that the following assets might be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or might have decreased:

– property, plant and equipment;

– intangible assets;

– goodwill; and

– investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication existed, the asset's recoverable amount was estimated. In addition, for goodwill, intangible assets that were not yet available for use and intangible assets that had indefinite useful lives, the recoverable amount was estimated annually whether or not there was any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset was the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows were discounted to their present value using a pre-tax discount rate that reflected current market assessments of time value of money and the risks specific to the asset. Where an asset did not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generated cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss was recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units were allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset would not be reduced below its individual fair value less costs of disposal (if measureable) or value in use (if determinable).

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Credit Losses and Impairment of Assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

(B) Policy applicable prior to 1 January 2018 *(cont'd)*

(ii) Impairment of other assets (cont'd)

– Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss was reversed if there had been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill was not reversed.

A reversal of an impairment loss was limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses were credited to profit or loss in the year in which the reversals were recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (notes 1(n)(i) and 1(n)(ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(o) Trade and Other Receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade and other receivables are stated at amortised cost using the effective interest method, less allowance for credit losses (note 1(n)).

Notes to the Financial Statements

31 December 2018

1. **SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

(p) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statements. Cash and cash equivalents are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 1(n)(i).

(q) Trade and Other Payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Interest-bearing Borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (note 1(y)).

(s) Other financial assets and liabilities

Other financial assets comprise dividend right forgone by non-controlling shareholders, and revenue and profit guarantee from non-controlling shareholders. They are recognised initially at their fair values at the date of business acquisitions and are subsequently measured at fair values with fair value changes recognised in profit and loss.

The fair value of the dividend right forgone is determined based on the discounted cash flow of future expected dividends to be forgone by the non-controlling shareholders.

The fair value of revenue and profit guarantee is determined based on the discounted cash flow of the expected compensation for each guaranteed period taking into consideration the probability of achieving the guaranteed revenue and profit for each guaranteed period.

Other financial liabilities comprise the fair value of put and call option. This liability arises when new acquisitions have contractual obligations enabling (i) the Company to require non-controlling shareholders to sell their shares to the Company and (ii) non-controlling shareholders to put their shares back to the Company, at an agreed price. This liability is recognised initially at the fair value at the date of business acquisitions and is subsequently measured at fair value with fair value changes recognised in profit or loss.

The fair value of the put and call option is determined using the Black-Scholes Option Pricing Model.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(t) Employee Benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed.

Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Income Tax (cont'd)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously;

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

In the ordinary course of business, there are many transactions and calculations for which the ultimate tax treatment is uncertain. Therefore, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when the Group believes that certain positions may not be fully sustained upon review by tax authorities, despite the Group's belief that its tax return positions are supportable. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of multifaceted judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(v) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(w) Revenue Recognition

Revenue is recognised when control over a service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Hotel management revenue

Revenue arising from hotel management services and provision of hotel reservation services is recognised when the Group satisfies a performance obligation by transferring control of a promised service to the customer. The amount of revenue recognised is the transaction price which is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised services.

In the comparative period, revenue arising from hotel management services and provision of hotel reservation services is recognised when the relevant services are rendered.

(ii) Hotel operations

Revenue from hotel operations is recognised when the Group satisfies a performance obligation by transferring control of a promised service to the customer. The amount of revenue recognised is the transaction price which is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised services.

In the comparative period, revenue from hotel operations is recognised on an accrual basis, upon rendering of the relevant services.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment becomes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(w) Revenue Recognition (cont'd)

(v) Procurement, marketing and management service income

Revenue arising from the provision of procurement, marketing and management services is recognised when the Group satisfies a performance obligation by transferring control of a promised service to the customer. The amount of revenue recognised is the transaction price which is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised services.

In the comparative period, revenue arising from the provision of procurement, marketing and management services is recognised when the relevant services are rendered.

(vi) Royalty income

Revenue arising from licensing of trademarks is recognised when the Group satisfies a performance obligation in accordance with the terms of the relevant agreement over the agreement term.

(vii) Referral fees and loan handling fees

Referral fees and loan handling fees generated from money lending and related business activities are recognised when the Group satisfies a performance obligation of transferring control of a promised service to the customer. The amount of revenue recognised in the transaction price is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised services.

In the comparative period, revenue generated from referral fees and loan handling fees are recognised on an accrual basis, upon rendering of the relevant services.

(x) Translation of Foreign Currencies

(i) Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting year. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(ii) Translation of foreign currencies

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(x) Translation of Foreign Currencies (cont'd)

(iii) Net investment in a foreign operation

Exchange differences arising from monetary items that in substance form part of the Group's net investment in a foreign operation are recognised in the Group's statement of profit or loss. Such exchange differences are reclassified to equity in the consolidated financial statements. When the foreign operation is disposed of, the cumulative amount in equity is transferred to the statement of profit or loss as an adjustment to the profit or loss arising on disposal.

(y) Finance Costs

Finance costs comprise interest expenses on borrowings and expenses incurred in connection with the arrangement of debt facilities.

Interest expenses on borrowings are recognised in the statement of profit or loss using the effective interest method. Expenses incurred in connection with the arrangement of debt facilities are recognised in the statement of profit or loss on an effective interest basis over the period for which the debt facilities are granted.

(z) Related Parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of the Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Financial Statements

31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(aa) Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(bb) New Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these financial statements. An explanation of the impact, if any, on adoption of these new requirements is provided in Note 42.

2. ACCOUNTING JUDGEMENT AND ESTIMATES

Sources of estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year is included in the following notes:

- Note 15 – Impairment of goodwill
- Note 33 – Acquisition of subsidiaries: fair value of the consideration transferred (including contingent consideration) and fair value of the assets acquired and liabilities assumed

Notes to the Financial Statements

31 December 2018

3. REVENUE

Revenue of the Group comprises revenue from the provision of hospitality related services, healthcare related services and money lending and related business activities, dividend income and interest income. Disaggregation of revenue recognised during the year by category is as follows:

	2018 HK$'000	2017(Note) HK$'000
Revenue from contracts with customers		
Hospitality related services	**115,538**	105,951
Healthcare related services		
– Royalty fees	**8,142**	2,695
– Management fees	**18,410**	3,974
Money lending and related business activities		
– Referral fees	**–**	47,410
– Loan handling fees	**3,050**	6,063
– Interest income on third party loans	**25,484**	5,676
Dividend income	**218**	997
Interest income on bank deposits	**714**	2,514
	171,556	175,280

Note: The Group had applied HKFRS 15 using the cumulative effect method. The comparative information is not restated in the Group's financial statements for the current period and was prepared in accordance with HKAS 18 (see note 1(c)(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 12(b) and 12(e) respectively. Revenue that is expected to be recognised in the future arising from contracts in existence at the reporting date is not significant.

Further details regarding the Group's principal activities are disclosed in note 32 to these financial statements.

4. OTHER NET GAINS

	2018 HK$'000	2017 HK$'000
Impairment loss on goodwill	**–**	(1,710)
Impairment loss on investment in an associate	**–**	(1,792)
Net realised and unrealised foreign exchange gain	**137**	4,772
Net realised and unrealised valuation (loss)/gain on trading securities	**(936)**	25,457
Net realised and unrealised gain on financial assets/liabilities	**7,804**	–
Plant and equipment written off	**(94)**	(1,356)
Miscellaneous income	**22**	544
	6,933	25,915

Notes to the Financial Statements

31 December 2018

5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is arrived at after charging/(crediting):

	2018	2017
	HK$'000	HK$'000
Finance costs		
Amortisation of capitalised transaction costs	**–**	841
Interest expenses on borrowings	**1,283**	1,184
	1,283	2,025
Staff costs		
Salaries, wages and other benefits	**112,992**	105,656
Other items		
Amortisation of intangible assets	**20,045**	8,486
Auditors' remuneration		
– audit services	**3,008**	2,616
– tax related services	**–**	1,681
– other services	**294**	1,258
Depreciation of property, plant and equipment	**4,003**	3,286
Reversal of impairment loss on trade and other receivables	**(145)**	(178)
Operating lease charges – rental of properties	**9,021**	5,327
Acquisition-related costs	**–**	3,940

Notes to the Financial Statements

31 December 2018

6. INCOME TAX

(a) Taxation in the consolidated statement of profit or loss represents:

	2018	2017
	HK$'000	HK$'000
Current tax		
Provision for the year	**375**	2,330
Income tax expense	**375**	2,330

The provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% (2017: 75%) of the tax payable for the year of assessment 2017/18 (2017: 2016/17) subject to a maximum reduction of HK$30,000 (2017: HK$20,000) for each business. Taxation for overseas subsidiaries has been provided on estimated assessable profits at the rates of taxation ruling in the relevant countries.

The Company is exempted from taxation in the Cayman Islands for a period of twenty years from 1989 under the provisions of Section 6 of the Tax Concessions Law (Revised) of the Cayman Islands. The tax concession was renewed for a further period of twenty years from 2 June 2009.

Notes to the Financial Statements

31 December 2018

6. INCOME TAX (cont'd)

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2018 HK$'000	2017 HK$'000
(Loss)/Profit before taxation	**(39,672)**	902
Income tax using Hong Kong tax rates	**(6,546)**	149
Tax effect of non-taxable income	**(5,899)**	(7,127)
Tax effect of non-deductible expenses	**6,909**	2,633
Effect of tax rates in foreign jurisdictions	**735**	(1,657)
Effect of tax on non-controlling interest's share of loss pass through different taxpayer	**1,730**	2,563
Unrecognised deferred tax assets	**6,133**	6,541
Utilisation of previously unrecognised tax losses	**(2,687)**	(772)
Actual income tax expense	**375**	2,330

(c) Current tax recoverable in the consolidated statement of financial position represents:

	2018 HK$'000	2017 HK$'000
Recoverable for overseas tax for the year	**75**	329
Recoverable for overseas tax relating to prior years	**410**	2,555
	485	2,884

Notes to the Financial Statements

31 December 2018

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
2018				
Executive Directors				
Jiang Yulin	**20,000**	**–**	**–**	**20,000**
Zhang Xian (Chief Executive Officer)	**4,000**	**–**	**–**	**4,000**
Independent Non-Executive Directors				
Guo Jingbin	**180**	**–**	**–**	**180**
Hu Baihe	**180**	**–**	**–**	**180**
Yuen Kwok Kuen	**180**	**–**	**–**	**180**
	24,540	**–**	**–**	**24,540**
2017				
Executive Directors				
Lawrence Yip Wai Lam (resigned on 30 June 2017)	300	–	–	300
Jiang Yulin	20,000	–	–	20,000
Zhang Xian (Chief Executive Officer)	4,000	–	–	4,000
Independent Non-Executive Directors				
Guo Jingbin	180	–	–	180
Hu Baihe	180	–	–	180
Yuen Kwok Kuen	180	–	–	180
	24,840	–	–	24,840
Chief Executive Officer*				
Wong Hong Ren (resigned on 11 July 2017)	–	4,045	–	4,045

* In accordance with Paragraph 24 of Appendix 16 to the Hong Kong Exchange Listing Rules, references to 'Director' include a Chief Executive Officer who is not a director.

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office (2017: nil). None of the chief executive and Directors waived or agreed to waive any emoluments during the year (2017: nil).

Notes to the Financial Statements

31 December 2018

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) of them are directors whose emolument is disclosed in note 7. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries and other emoluments	**5,555**	7,548

The emoluments of the three (2017: three) individuals with the highest emoluments are within the following bands:

	2018 **Number of** **individuals**	2017 Number of individuals
HK$Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**3**	2
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**–**	–
HK$4,000,001 – HK$4,500,000	**–**	1

9. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a profit of HK$10,396,000 (2017: HK$37,949,000) recorded in the financial statements of the Company.

10. EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$27,622,000 (2017: profit attributable to ordinary equity shareholders of HK$14,877,000) and the weighted average of 398,979,524 ordinary shares (2017: 387,959,524 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares as at 1 January	**398,979,524**	382,449,524
Effect of shares issued in relation to business combinations	**–**	5,510,000
Weighted average number of ordinary shares at 31 December	**398,979,524**	387,959,524

Notes to the Financial Statements

31 December 2018

10. EARNINGS PER SHARE (cont'd)

(b) *Diluted (loss)/earnings per share*

Diluted (loss)/earnings per share are not applicable as there are no dilutive potential ordinary shares during the year.

11. OTHER COMPREHENSIVE INCOME

(a) *Tax effects relating to each component of other comprehensive income*

	2018			2017		
	Before tax amount HK$'000	**Tax expenses HK$'000**	**Net of tax amount HK$'000**	Before tax amount HK$'000	Tax expenses HK$'000	Net of tax amount HK$'000
Exchange differences on translation of financial statements of foreign operations	**42**	**–**	**42**	1,411	–	1,411
Exchange differences on monetary item forming net investment in a foreign operation	**(63)**	**–**	**(63)**	(257)	–	(257)
Financial assets at FVOCI – net movement in fair value reserve (non-recycling)	**(3,027)**	**–**	**(3,027)**	–	–	–
	(3,048)	**–**	**(3,048)**	1,154	–	1,154

(b) *Components of other comprehensive income, including reclassification adjustments*

	2018 HK$'000
Financial assets measured at FVOCI – Changes in fair value recognised during the period	**(3,027)**
Net movement in the fair value reserve (non-recycling) during the period recognised in other comprehensive income	**3,027**

Notes to the Financial Statements

31 December 2018

12. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by products and services. The Group has identified the following four reportable segments based on the information that is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. No operating segments have been aggregated to form the following reportable segments.

– Investment holding : This segment relates to investments in listed equity investments, and unlisted marketable equitable equity mutual funds held as trading securities and investment in an unlisted equity fund classified as FVOCI (non-recycling) (2017: available-for-sale financial assets). Currently, the Group's equity investment portfolio includes equity securities listed on The Philippines Stock Exchange, Inc. and an unlisted investment in Hong Kong.

– Hospitality : This segment primarily derives the revenue from the provision of hotel management, hotel reservation, hotel revenue management services, risk management services and procurement services relating to the hospitality industry as well as owning and managing hotels. Currently, the Group's activities in this segment are carried out in the United States and Europe.

– Healthcare : This segment primarily derives the revenue from the provision of procurement, marketing and management services to the medical industry as well as royalty fees from the licensing of trademarks. Currently, the Group's activities in this segment are carried out in China, Hong Kong and Korea.

– Money lending and related business : This segment primarily derives the revenue from the interests earned from the provision of loans to third parties, as well as referral and handling fees receivable for the provision of loan related services and the introduction of prospective lenders and borrowers. Currently, the Group's activities in this segment are carried out in China and Hong Kong.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets, goodwill and current assets with the exception of current tax recoverable. Segment liabilities include interest-bearing borrowings, trade and other payables and dividends received in excess of earnings from equity-method accounted joint venture, with the exception of current and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint operation and associates.

The measure used for reporting segment profit is "profit from operations". In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue, interest income, depreciation and amortisation, impairment losses, foreign exchange gain/loss, gain/loss on trading securities and additions to non-current segment assets used by the segments in their operations.

Notes to the Financial Statements

31 December 2018

12. SEGMENT REPORTING (cont'd)

(b) *Information about reportable segments*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	Investment Holding		Hospitality		Healthcare		Money Lending and Related Business		Total	
	2018	2017(Note)	**2018**	2017(Note)	**2018**	2017(Note)	**2018**	2017(Note)	**2018**	2017(Note)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Disaggregated by timing of revenue recognition										
Point in time	**218**	997	**115,538**	105,951	**18,410**	3,974	**3,050**	53,473	**137,216**	164,395
Over time	**–**	–	**–**	–	**8,142**	2,695	**–**	–	**8,142**	2,695
Revenue from external customers	**218**	997	**115,538**	105,951	**26,552**	6,669	**3,050**	53,473	**145,358**	167,090
Interest income	**714**	2,218	**–**	296	**–**	–	**25,484**	5,676	**26,198**	8,190
Reportable segment revenue	**932**	3,215	**115,538**	106,247	**26,552**	6,669	**28,534**	59,149	**171,556**	175,280
Reportable segment (loss)/profit	**(36,837)**	(21,985)	**(35,786)**	(38,112)	**4,417**	1,850	**28,534**	59,149	**(39,672)**	902
Depreciation and amortisation	**(311)**	(309)	**(8,314)**	(6,305)	**(15,423)**	(5,158)	**–**	–	**(24,048)**	(11,772)
Impairment loss on										
– goodwill	**–**	–	**–**	(1,710)	**–**	–	**–**	–	**–**	(1,710)
– investment in an associate	**–**	(1,792)	**–**	–	**–**	–	**–**	–	**–**	(1,792)
Net realised and unrealised valuation gain/(loss) on trading securities	**(936)**	25,457	**–**	–	**–**	–	**–**	–	**(936)**	25,457
Net realised and unrealised foreign exchange gain/(loss)	**20**	4,741	**(63)**	(16)	**180**	47	**–**	–	**137**	4,772
Net gain on other financial assets/liabilities	**7,804**	–	**–**	–	**–**	–	**–**	–	**7,804**	–
Plant and equipment written off	**–**	–	**(94)**	(1,356)	**–**	–	**–**	–	**(94)**	(1,356)
Additions to non-current assets	**9**	10	**4,700**	27,569	**–**	153,950	**–**	–	**4,709**	181,529
Reportable segment assets	**193,081**	225,155	**100,851**	116,811	**239,156**	258,226	**171,699**	116,040	**704,787**	716,232
Reportable segment liabilities	**5,559**	8,039	**96,062**	99,859	**8,717**	17,654	**–**	–	**110,338**	125,552

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 (see note 1(c)).

Notes to the Financial Statements

31 December 2018

12. SEGMENT REPORTING (cont'd)

(c) *Reconciliations of reportable segment assets and liabilities*

	2018	2017
	HK$'000	HK$'000
Assets		
Reportable segment assets	**704,787**	716,232
Current tax recoverable	**485**	2,884
Consolidated total assets	**705,272**	719,116
Liabilities		
Reportable segment liabilities	**110,338**	125,552
Deferred tax liabilities	**15,938**	15,908
Provision for taxation	**2,995**	2,600
Consolidated total liabilities	**129,271**	144,060

(d) *Geographical segments*

The Group's investing activities, and money lending and related business activities are mainly carried out in China and Hong Kong. Hospitality activities are carried out by the subsidiaries based in the United States and Europe. Healthcare activities are carried out by the subsidiaries based in Hong Kong and Korea.

In presenting information on the basis of geographical segments, segment revenue in relation to investment holding is based on the geographical location of investments and segment revenue in relation to hospitality, healthcare and money lending and related businesses are based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Notes to the Financial Statements

31 December 2018

12. SEGMENT REPORTING (cont'd)

(e) Geographical information

2018	**Revenue HK$'000**	**Non-current assets HK$'000**
Hong Kong	**901**	**23,930**
United States	**111,440**	**67,025**
British Virgin Islands	**27,499**	**–**
Cayman Islands	**–**	**538**
China	**1,035**	**–**
Singapore	**376**	**74**
Korea	**26,583**	**230,625**
Spain	**3,722**	**2,006**
	171,556	**324,198**

2017	Revenue HK$'000	Non-current assets HK$'000
Hong Kong	3,215	27,154
United States	102,809	77,837
British Virgin Islands	11,591	–
Cayman Islands	–	18,321
China	47,558	–
Singapore	70	297
Korea	6,669	249,939
Spain	3,368	4,673
	175,280	378,221

Major customer

Revenue from the largest customer of the Group's healthcare segment (2017: money lending and related business segment) amounted to HK$23,737,000 (2017: HK$47,410,000) represents approximately 14% (2017: 27%) of the Group's total revenue.

Notes to the Financial Statements

31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Building HK$'000	Plant, machinery and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2017	5,060	35,233	16,160	704	57,157
Acquisition of subsidiaries	–	–	133	–	133
Additions	–	617	17,878	–	18,495
Written off	–	–	(2,532)	–	(2,532)
Exchange adjustments	43	271	147	–	461
At 31 December 2017	5,103	36,121	31,786	704	73,714
At 1 January 2018	5,103	36,121	31,786	704	73,714
Additions	70	391	1,949	–	2,410
Written off	–	–	(180)	–	(180)
Exchange adjustments	15	83	72	–	170
At 31 December 2018	5,188	36,595	33,627	704	76,114
Accumulated depreciation and impairment losses					
At 1 January 2017	28	5,261	10,798	12	16,099
Depreciation for the year	–	951	2,194	141	3,286
Written off	–	–	(1,176)	–	(1,176)
Exchange adjustments	3	48	71	–	122
At 31 December 2017	31	6,260	11,887	153	18,331
At 1 January 2018	31	6,260	11,887	153	18,331
Depreciation for the year	–	996	2,866	141	4,003
Written off	–	–	(86)	–	(86)
Exchange adjustments	–	5	16	–	21
At 31 December 2018	31	7,261	14,683	294	22,269
Net book value					
At 1 January 2017	5,032	29,972	5,362	692	41,058
At 31 December 2017	5,072	29,861	19,899	551	55,383
At 31 December 2018	5,157	29,334	18,944	410	53,845

Freehold land is situated outside Hong Kong and is being held for own use.

At 31 December 2018, property, plant and equipment of the Group with a carrying amount of HK$35,551,000 (2017: HK$36,209,000) were pledged as security to secure bank loans (note 25).

Notes to the Financial Statements

31 December 2018

14. INTANGIBLE ASSETS

	Trademarks HK$'000	Franchise application HK$'000	Technology HK$'000	Customer relations HK$'000	Customer contracts HK$'000	Web development HK$'000	Web development in progress HK$'000	Total HK$'000
Cost								
At 1 January 2017	2,638	333	14,928	1,676	–	3,714	–	23,289
Acquisition of subsidiaries	126,723	–	–	–	32,796	–	–	159,519
Additions	–	–	–	–	–	1,044	2,338	3,382
Exchange adjustments	(154)	3	116	12	(34)	33	6	(18)
At 31 December 2017	129,207	336	15,044	1,688	32,762	4,791	2,344	186,172
At 1 January 2018	129,207	336	15,044	1,688	32,762	4,791	2,344	**186,172**
Reclassification	–	–	–	–	–	2,284	(2,284)	**–**
Additions	–	78	–	–	–	1,228	571	**1,877**
Exchange adjustments	244	1	28	3	(108)	12	3	**183**
At 31 December 2018	129,451	415	15,072	1,691	32,654	8,315	634	**188,232**
Accumulated amortisation and impairment losses								
At 1 January 2017	1,551	101	11,443	1,005	–	2,125	–	16,225
Charge for the year	4,317	16	919	210	1,949	1,075	–	8,486
Exchange adjustments	19	–	87	12	12	20	–	150
At 31 December 2017	5,887	117	12,449	1,227	1,961	3,220	–	24,861
At 1 January 2018	5,887	117	12,449	1,227	1,961	3,220	–	**24,861**
Charge for the year	12,771	16	626	211	4,575	1,846	–	**20,045**
Exchange adjustments	24	–	25	3	612	9	–	**673**
At 31 December 2018	18,682	133	13,100	1,441	7,148	5,075	–	**45,579**
Net book value								
At 1 January 2017	1,087	232	3,485	671	–	1,589	–	7,064
At 31 December 2017	123,320	219	2,595	461	30,801	1,571	2,344	161,311
At 31 December 2018	**110,769**	**282**	**1,972**	**250**	**25,506**	**3,240**	**634**	**142,653**

The amortisation charge for the Group's trademarks, technology, customer relations, customer contracts and web development and the Group's share of the joint operation's franchise application are included in "administrative expenses" in the consolidated statement of profit or loss.

Notes to the Financial Statements
31 December 2018

15. GOODWILL

	Note	HK$'000
Cost		
At 1 January 2017		8,941
Acquisitions through business combinations	33	87,599
Exchange adjustments		7
At 31 December 2017		96,547
Exchange adjustments		182
At 31 December 2018		96,729
Accumulated impairment losses		
At 1 January 2017		–
Impairment loss		1,710
At 31 December 2017		1,710
Exchange adjustments		3
At 31 December 2018		1,713
Carrying amount		
At 1 January 2017		8,941
At 31 December 2017		94,837
At 31 December 2018		95,016

Impairment testing for cash-generating unit containing goodwill

For the purpose of impairment testing, goodwill is allocated as follows:

	2018 **HK$'000**	2017 HK$'000
Hotel reservation business	**7,321**	7,307
Healthcare business	**87,695**	87,530
	95,016	94,837

Notes to the Financial Statements

31 December 2018

15. GOODWILL (cont'd)

***Impairment testing for cash-generating unit containing goodwill* (cont'd)**

Recoverable amounts are determined by management based on the following:

(a) As at the reporting date, the Group has determined the recoverable amount of the hotel reservation business based on the fair value determined under the discounted cash flow method.

The discounted cash flow method uses cash flow projections based on the most recent budgets and forecasts approved by the management covering a period 5 years and using a discount rate of 16.5% (2017: 16.0%). The terminal value is calculated by applying a capitalisation rate of 13.5% (2017: 13.0%) on the residual free cash flow based on EBITDA.

(b) As at the reporting date, the Group has determined the recoverable amount of the healthcare business based on its value in use calculation. The value in use calculation is a discounted cash flow model using cash flows projections based on the licensing of DA trademark in markets identified covering a period of 10 years (2017: 10 years) using a discount rate of 13.5% (2017: 13.4%). The terminal value is calculated by applying a capitalisation rate of 10.5% (2017: 11.4%) on the pre-tax royalty income.

In 2017, an impairment loss of HK$1.7 million was recognised on the goodwill relating to the hotel operations of Sheraton Chapel Hill Hotel based on the above assessment as the business is operating at a loss and the management do not project a significant improvement in the foreseeable future. As a result, the goodwill relating to the hotel operations of Sheraton Chapel Hill Hotel was fully written off in 2017.

There is no impairment loss recognised on the goodwill relating to the hotel reservation business and the healthcare business based on the above impairment testing undertaken by the management in 2018 and 2017.

Notes to the Financial Statements

31 December 2018

16. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of net assets	**8,367**	6,682

Details of the Group's interests in the associates are as follows:

Name of associate/ principal activities	Form of business structure	Place of incorporation and operation	Issued and paid up capital	2018 Group's effective interest %	2018 Held by subsidiary %	2017 Group's effective interest %	2017 Held by subsidiary %
S-R Burlington Partners, LLC (Provision of hospitality related services)	Incorporated	USA	US$2,970,281	**27**	**32**	27	32
Star Time Limited (Dormant)	Incorporated	Hong Kong	HK$18,180	**45**	**45**	45	45
TM Thai IVF Co., Ltd.	Incorporated	Thailand	THB5,000,000	**49**	**49**	–	–
北京玖英特醫療科技有限公司	Incorporated	The PRC	RMB12,500,000	**20**	**20**	–	–

All of the above associates are accounted for using the equity method in the consolidated financial statements. None of the associates are individually material to the Group. Aggregate information of the associates that are not individually material, is as follows:

	2018 HK$'000	2017 HK$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**8,367**	6,682
Aggregate amounts of the Group's share of the results of those associates: (Loss)/Profit from continuing operations	**(2,346)**	312

Acquisition of interests in associates

In 2018, the Group acquired 49% interests in TM Thai IVF Co., Ltd. and 20% interests in北京玖英特醫療科技有限公司 for a cash consideration of THB2,450,000 and RMB3,000,000 respectively.

In 2017, the Group acquired 45% interests in Star Time Limited for a consideration of HK$ 1.8 million. Following the full impairment loss recognised on goodwill and the Group's share of loss in the associate, the carrying value of the Group's investment in the associate was reduced to nil as of 31 December 2017.

Notes to the Financial Statements
31 December 2018

17. INTEREST IN A JOINT OPERATION

	2018	2017
	HK$'000	HK$'000
Line-by-line interest in net assets of joint operation that are combined into the consolidated financial statements, including line-by-line interest in goodwill as below	**9,427**	11,573

Details of the Group's net interest in the joint operation, which is accounted for in the consolidated financial statements using the accounting policy in note 1(g), are as follows:

			Proportion of ownership interest			
			2018		2017	
Name of joint operation/ Principal activities	**Form of business structure**	**Place of operation**	**Group's effective interest**	**Held by subsidiary**	Group's effective interest	Held by subsidiary
			%	**%**	%	%
Sheraton Chapel Hill Hotel (Provision of hospitality related services)	Tenant-in-common agreement	USA	**43**	**50**	43	50

The Group, through an indirect subsidiary, SWAN Carolina Investor, LLC ("SCI"), entered into a tenant-in-common agreement with Whiteboard Investments, LLC, to own an equal 50% tenant-in-common interest in Sheraton Chapel Hill Hotel (the "Property") for the purpose of owning and operating the Property as a hotel and as an investment.

Although Sheraton Chapel Hill Hotel is legally separated from the parties, the Group has classified it as a joint operation. This is on the basis that the partners have the rights to the assets, and obligations for the liabilities, relating to Sheraton Chapel Hill Hotel.

The table below summarised the Group's line-by-line interest in the results, assets and liabilities of the joint operation that had been combined into the Group's consolidated statement of financial position and consolidated statement of profit or loss.

	2018	2017
	HK$'000	HK$'000
Non-current assets	**35,833**	36,428
Current assets	**8,425**	8,718
Non-current liabilities	**(29,896)**	(28,950)
Current liabilities	**(4,935)**	(4,623)
Net assets	**9,427**	11,573

Notes to the Financial Statements

31 December 2018

17. INTEREST IN A JOINT OPERATION (cont'd)

	2018 HK$'000	2017 HK$'000
Revenue	**20,774**	21,799
Expenses	**(22,939)**	(24,322)
Loss for the year	**(2,165)**	(2,523)

18. OTHER FINANCIAL ASSETS

	Note	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Financial assets designated at FVOCI (non-recycling)	(i)			
– Unquoted investment		**538**	47,350	–
Financial assets measured at FVPL	(ii)			
– Dividend right forgone by non-controlling shareholders		**7,813**	12,632	12,632
– Revenue and profit guarantee from non-controlling shareholders		**–**	488	488
		8,351	60,470	13,120
Available-for-sale financial assets	(i)			
– Unquoted investment		**–**	–	18,321
		–	–	18,321
		8,351	60,470	31,441

Note:

(i) Available-for-sale financial assets were reclassified to financial assets designated at FVOCI (non-recycling) upon the initial application of HKFRS 9 at 1 January 2018. This give rise to a change in accounting policy as previously the Group measured the available-for-sale investment at cost less impairment loss. As an exception to retrospective application, the difference between the fair value and the previous carrying amount at 1 January 2018 is recorded as an adjustment to the opening retained earnings at 1 January 2018. The impact of transition is set out in note 1(c)(i).

Notes to the Financial Statements

31 December 2018

18. OTHER FINANCIAL ASSETS (cont'd)

Note: (cont'd)

Reconciliation of movements in unquoted investment

	HK$'000
At 1 January 2017	18,179
Translation differences	142
At 31 December 2017	18,321
Impact on initial application of HKFRS 9	29,029
At 1 January 2018	47,350
Return of capital	(43,800)
Fair value loss	(3,027)
Translation differences	15
At 31 December 2018	538

The details of the unquoted investment held by the Group is as follows:

	2018 Percentage contribution %	2017 Percentage contribution %
BEA Blue Sky Real Estate Fund LP (the "Fund")	**49.5**	49.5

The Fund is a closed-ended private equity fund structured as a Cayman Islands exempted limited partnership, organised for the sole purpose of subscribing for a limited partnership interest in a China Fund. The China Fund is a real estate private equity fund established for the purpose of making investments in real estate assets and real estate-related assets in China.

The Group designated its unquoted investment at FVOCI (non-recycling), as it does not intend to dispose of this investment in the foreseeable future.

(ii) The dividend right forgone by non-controlling shareholders and revenue and profit guarantee from non-controlling shareholders arose from the acquisition of subsidiary in 2017 (see note 33).

Notes to the Financial Statements

31 December 2018

19. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Third-party trade receivables	**43,736**	31,113
Less: Allowance for impairment loss	**(62)**	(207)
	43,674	30,906
Due from an associate	**1,254**	–
Other receivables and deposits	**20,117**	8,801
	65,045	39,707
Prepayments	**28,735**	31,529
Trade and other receivables	**93,780**	71,236
Non-current	**23,779**	28,567
Current	**70,001**	42,669
	93,780	71,236

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of third-party trade receivables (net of allowance for impairment loss) based on invoice date is as follows:

	2018	2017
	HK$'000	HK$'000
Less than 1 month	**15,690**	19,431
1 to 3 months	**13,881**	8,545
3 to 12 months	**14,103**	2,930
	43,674	30,906

Trade receivables are due within 1 month from the date of invoice. Further details on the Group's credit policy and credit risk arising from trade receivables is set out in note 35.

(b) Prepayments

Prepayments consist of professional fees of HK$25 million (2017: HK$27 million) paid in advance to business consultants which provide advisory services to the Group in developing or acquiring new businesses.

Notes to the Financial Statements

31 December 2018

20. TRADING SECURITIES

	2018 HK$'000	2017 HK$'000
Financial assets at FVPL		
– Equity securities listed outside Hong Kong	**296**	23,893
– Unquoted non-equity investment	**16,434**	23,184
	16,730	47,077

21. LOAN RECEIVABLES

	2018 HK$'000	2017 HK$'000
Loans to third parties		
– secured	**162,592**	101,509
– unsecured	**9,107**	11,899
	171,699	113,408

As at 31 December 2018, the Group made three (2017: two) loans to third parties.

The carry amount of loans to third parties consists of a loan of approximately HK$101.8 million (2017: approximately HK$101.5 million) which is secured by a pledge of properties owned by two individuals who have also extended personal guarantees in favour of the borrower, and another loan of approximately HK$60.8 million (2017: nil) which is secured by personal guarantee from a shareholder of a borrower.

The loans bear interest at rates ranging from 10% to 12% (2017: 10% to 12%) per annum, and are repayable within one year.

22. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018 HK$'000	2017 HK$'000
Deposits with banks and other financial institutions	**53,994**	110,781
Cash at bank and on hand	**60,352**	24,076
Cash and cash equivalents in the consolidated statement of financial position	**114,346**	134,857
Less: Cash pledged for interest-bearing borrowings (note 25)	**(3,061)**	(2,563)
Cash and cash equivalents in the consolidated statement of cash flows	**111,285**	132,294

The weighted average effective interest rates per annum relating to cash and cash equivalents at the end of the reporting period for the Group is 1.326% (2017: 1.856%). Interest rates re-price within twelve months.

Notes to the Financial Statements

31 December 2018

22. CASH AND CASH EQUIVALENTS (cont'd)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

	Interest payable (included in trade and other payables) HK$'000	Interest bearing borrowings HK$'000 (note 25)	Loans from non-controlling interests HK$'000 (note 26)	Total HK$'000
At 1 January 2017	89	29,701	2,908	32,698
Changes from financing cash flows:				
Increase in loans from non-controlling interests	–	–	39,740	39,740
Repayment of interest-bearing borrowings	–	(880)	–	(880)
Interest paid	(1,231)	–	–	(1,231)
Total changes from financing cash flows	(1,231)	(880)	39,740	37,629
Exchange adjustments	2	206	139	347
Other changes:				
Amortisation of capitalised transaction costs (note 5)	–	841	–	841
Interest expenses on borrowings (note 5)	1,184	–	–	1,184
At 31 December 2017	44	29,868	42,787	72,699

Notes to the Financial Statements

31 December 2018

22. CASH AND CASH EQUIVALENTS (cont'd)

(b) Reconciliation of liabilities arising from financing activities (cont'd)

	Interest payable (included in trade and other payables) HK$'000	Interest bearing borrowings HK$'000 (note 25)	Loans from non-controlling interests HK$'000 (note 26)	Total HK$'000
At 1 January 2018	**44**	**29,868**	**42,787**	**72,699**
Changes from financing cash flows:				
Increase in loans from non-controlling interests	**–**	**–**	**11,927**	**11,927**
Repayment of interest-bearing borrowings	**–**	**(1,298)**	**–**	**(1,298)**
Interest paid	**(1,327)**	**–**	**–**	**(1,327)**
Total changes from financing cash flows	**(1,327)**	**(1,298)**	**11,927**	**9,302**
Exchange adjustments	**–**	**431**	**94**	**525**
Other changes:				
Interest expenses on borrowings (note 5)	**1,283**	**–**	**–**	**1,283**
Capitalisation of loan from non-controlling interest (note 26)	**–**	**–**	**(20,907)**	**(20,907)**
At 31 December 2018	**–**	**29,001**	**33,901**	**62,902**

23. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**9,576**	6,463
Other payables and accrued charges	**20,733**	22,582
	30,309	29,045
Deferred income	**5,003**	4,533
	35,312	33,578

All of the trade and other payables are expected to be settled within one year.

Deferred income relates to revenue billed but performance obligations have not been satisfied.

Notes to the Financial Statements

31 December 2018

23. TRADE AND OTHER PAYABLES (cont'd)

Trade and other payables, excluding deferred income, have the following ageing analysis based on due date:

	2018 **HK$'000**	2017 HK$'000
Due within 1 month or on demand	**12,830**	13,950
Due 1 to 3 months	**4,519**	3,941
Due 3 to 12 months	**12,960**	11,154
	30,309	29,045

24. DEFERRED CONSIDERATION

The deferred consideration pertains to the variable consideration payable to the vendor of Cross-Tinental S.L. on 17 August 2019. The variable consideration is dependent on the level of revenues to be generated from the existing customers at the date of acquisition for the next 2 years from the date of acquisition.

The Group's fair value measurement of deferred consideration is set out in note 35.

25. INTEREST-BEARING BORROWINGS

	2018 **HK$'000**	2017 HK$'000
Bank loans – secured	**29,001**	29,868
Repayable:		
– Within 1 year	**960**	922
– After 1 year but within 2 years	**995**	951
– After 2 years but within 5 years	**27,046**	3,133
– After 5 years	**–**	24,862
	28,041	28,946
	29,001	29,868

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

Notes to the Financial Statements
31 December 2018

25. INTEREST-BEARING BORROWINGS (cont'd)

Security

The Group's term loan is secured by:

- a first priority mortgage of Sheraton Chapel Hill Hotel, its improvements, equipment and fixtures with a carrying amount of HK$35.6 million (2017: HK$36.2 million) as at 31 December 2018 (note 13);
- assignments of all rights and benefits to sale, lease agreements, trademarks and insurance proceeds in respect of Sheraton Chapel Hill Hotel;
- pledge of monies held in specific bank accounts of HK$3.1 million (2017: HK$2.6 million) as at 31 December 2018 (note 22); and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Covenant

The Group's banking facilities are subjected to the fulfilment of covenants relating to the Group's certain financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 35. As at 31 December 2018, there was no breach of covenants that are significant to the Group's operations that will result in the lenders demanding for the immediate repayment of the term loan (2017: no breach of covenants).

Non-recourse Carveout Guarantees

As at 31 December 2018, RHI and SWAN USA, Inc (the "Guarantors"), both being indirect subsidiaries of the Group, are guarantors for certain indebtedness relating to the Group's joint operation, joint venture and associate, as below:

a. RHI is a guarantor of indebtedness of the term loan entered into by Swan Carolina Investor, LLC and SFI Carolina TIC SPE, LLC for Sheraton Chapel Hill Hotel. The term guarantee expires on 6 May 2023.

The above indebtedness are non-recourse in nature and the Group's liabilities are limited to the collaterals on which the individual loans are secured. The guarantees entered into by the Guarantors provide the lender with recourse for any losses and expenses arising from specific acts such as fraud, misappropriation of rents and intentional damages ("covenants"). The obligations of the Guarantors are to the extent which the collaterals are insufficient to meet the lender's losses and expenses. These guarantees do not impose liability on the Guarantors for any other event such as the non-payment of loan by the borrower. The maximum potential liability of the Group under the guarantees as at 31 December 2018 is HK$29.0 million (2017: HK$29.9 million).

The management is of the view that the possibility of violating the above covenants and triggering any cash outflow within the scope of the above guarantees is remote. In addition, the above indebtedness are non-recourse in nature and the carrying amount of the individual collateral is in excess of the outstanding loan amount.

Notes to the Financial Statements

31 December 2018

26. LOANS FROM NON-CONTROLLING INTERESTS

The loans from non-controlling interests are unsecured and interest-free, and are due for repayment over the period from February 2019 to February 2021.

During the year, HK$20,907,000 of the loans from non-controlling interests was capitalised by way of issuance of shares by a subsidiary.

27. DIVIDENDS RECEIVED IN EXCESS OF EARNINGS FROM EQUITY-METHOD ACCOUNTED JOINT VENTURE

	2018	2017
	HK$'000	HK$'000
Dividends in excess of earnings	**227**	227

Details of the Group's net interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
				2018		2017	
Name of joint venture/ Principal activities	**Form of business structure**	**Place of incorporation and operation**	**Issued and paid up capital**	**Group's effective interest**	**Held by subsidiary**	Group's effective interest	Held by subsidiary
			US$	**%**	**%**	%	%
RSF Syracuse Partners, LLC (Provision of hospitality related services)	Incorporated	USA	6,911,000	43	50	43	50

Notes to the Financial Statements

31 December 2018

27. DIVIDENDS RECEIVED IN EXCESS OF EARNINGS FROM EQUITY-METHOD ACCOUNTED JOINT VENTURE (cont'd)

Summarised financial information of RSF Syracuse Partners, LLC and reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2018	2017
	HK$'000	HK$'000
Current assets	**70**	–
Current liabilities	**(523)**	(453)
Equity	**(453)**	(453)
Revenue	**–**	–
Loss for the year	**–**	(16)
Reconciled to the Group's interest in RSF Syracuse Partners, LLC		
Gross amounts of net liabilities	**453**	453
Group's interest	**50%**	50%
Group's share of net liabilities, representing the carrying amount in the consolidated financial statements	**227**	227

Notes to the Financial Statements

31 December 2018

28. DEFERRED TAX LIABILITIES

(a) *Deferred tax liabilities recognised*

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Note	**Intangible assets HK$'000**
Deferred tax arising from:		
At 1 January 2017		–
Acquired in business combinations	33	(15,929)
Exchange adjustments		21
At 31 December 2017		(15,908)
At 1 January 2018		**(15,908)**
Exchange adjustments		**(30)**
At 31 December 2018		**(15,938)**

(b) *Deferred tax assets not recognised*

The following temporary differences have not been recognised:

	2018 HK$'000	2017 HK$'000
Tax losses	**148,207**	104,995
Other temporary differences	**(3,163)**	(3,486)
	145,044	101,509

Deferred tax assets have not been recognised in respect of unutilised tax losses and other temporary differences because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

Tax losses amounting to HK$12.6 million (2017: HK$10.7 million) have expiry dates between 1 to 5 years. Tax losses amounting to HK$86.7 million (2017: HK$88.5 million) have expiry dates of more than 5 years. The earliest expiry date is on 31 December 2022 and the latest expiry date is on 31 December 2037. The remaining tax losses amounting to HK$48.9 million (2017: HK$5.8 million) do not expire under the tax legislations of the respective jurisdiction.

Notes to the Financial Statements

31 December 2018

29. OTHER FINANCIAL LIABILITIES

Other financial liabilities relate to the put and call option arising from the acquisition of subsidiary in 2017 (see note 33(a)).

30. CAPITAL AND RESERVES

(a) *Movements in components of equity*

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Revenue reserve HK$'000	Total HK$'000
The Company					
Balance at 1 January 2017	382,450	–	676	81,946	465,072
Changes in equity for 2017:					
Total comprehensive income for the year	–	–	–	37,949	37,949
Issue of ordinary shares related to business combinations	16,530	20,663	–	–	37,193
Balance at 31 December 2017	398,980	20,663	676	119,895	540,214
Balance at 1 January 2018	**398,980**	**20,663**	**676**	**119,895**	**540,214**
Changes in equity for 2018:					
Total comprehensive income for the year	**–**	**–**	**–**	**10,396**	**10,396**
Balance at 31 December 2018	**398,980**	**20,663**	**676**	**130,291**	**550,610**

Notes to the Financial Statements

31 December 2018

30. CAPITAL AND RESERVES (cont'd)

(b) Share capital

(i) Authorised and issued share capital

	The Company			
	2018		2017	
	No. of shares ('000)	HK$'000	No. of shares ('000)	HK$'000
Authorised:				
Ordinary shares of HK$1 each	**2,720,615**	**2,720,615**	2,720,615	2,720,615
Ordinary shares, issued and fully paid:				
At 1 January	**398,980**	**398,980**	382,450	382,450
Issued in business combinations	**–**	**–**	16,530	16,530
At 31 December	**398,980**	**398,980**	398,980	398,980

In 2017, the Company issued 16,530,000 ordinary shares at HK$3.06 per share as part of the purchase consideration for the acquisition of PRIP and its subsidiary (see note 33). The difference between the par value and the fair value of the issued shares is classified as share premium.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Purchase of own shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2018 and 31 December 2017.

Notes to the Financial Statements

31 December 2018

30. CAPITAL AND RESERVES (cont'd)

(c) Nature and purpose of reserves

The reserves of the Group and the Company comprise the following balances:

	Group		Company	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share premium	**20,663**	20,663	**20,663**	20,663
Capital redemption reserve	**676**	676	**676**	676
Fair value reserve (non-recycling)	**26,002**	–	**–**	–
Exchange reserve	**352**	561	**–**	–
Revenue reserve	**39,275**	66,897	**130,291**	119,895
	86,968	88,797	**151,630**	141,234

(i) Share premium

Share premium reserves represents the difference between the par value and the fair value of the issued shares.

(ii) Capital redemption reserve

Capital redemption reserve represents the nominal value of the shares repurchased which have been paid out of the distributable reserves of the Company.

(iii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 18).

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and exchange differences on monetary items which form part of the Group's net investment in foreign operations, provided certain conditions are met. The reserve is dealt with in accordance with the accounting policy set out in note 1(x).

(d) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$130,291,000 (2017: HK$119,895,000).

Notes to the Financial Statements

31 December 2018

30. CAPITAL AND RESERVES (cont'd)

(e) Share award scheme

On 9 December 2016, the Company adopted a share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares (the "Award Shares") to any Directors, employees or third party service providers of the Group (the "Beneficiary" or "Beneficiaries") as incentives and rewards so as (i) to provide the Beneficiaries with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain the Beneficiaries to work with the Group; and (iii) to provide additional incentive for the Beneficiaries to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the Beneficiaries directly to the shareholders of the Company through ownership of shares subject to such conditions as the Board may deem appropriate at its discretion.

Determination of proposed Beneficiaries

The grant of Award Shares under the Share Award Scheme to any eligible person will be proposed by the Remuneration Committee and approved by the Board. The Board shall:

(i) consider whether to accept the proposal from the Remuneration Committee (with or without amendments); and

(ii) if the proposal is accepted (with or without amendments), select from among the proposed eligible person those persons who will be entitled to receive Award Shares under the Share Award Scheme and determine the number of Award Shares that each proposed Beneficiary will be entitled to be granted.

The selection of proposed Beneficiaries and determination of the number of Award Shares to which each proposed Beneficiary will be entitled will be made pursuant to a resolution of the Remuneration Committee.

Grant of Award Shares

The Company will notify each relevant proposed Beneficiary of his entitlement to Award Shares by way of a notice of award. The notice of award will specify the terms and conditions of the Award and the Share Award Scheme such as the number of Award Shares entitled, the vesting criteria and conditions, the vesting date and such other details as the Board may consider necessary.

Each grant of Award Shares under the Share Award Scheme to any connected person shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed Beneficiary). If any proposed grant of Award Shares to any connected person in relation to the Company or any of its subsidiaries under the Share Award Scheme would result in the total number of Award Shares being issued to such connected person during the 12-month period immediately preceding the date of such proposed grant exceeding 1% of the total issued share capital of the Company as at the date of such proposed grant, then such proposed grant must be approved by the shareholders of the Company in a general meeting at which such connected person and his associates shall abstain from voting. The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant and issue of shares to connected persons of the Company.

Notes to the Financial Statements

31 December 2018

30. CAPITAL AND RESERVES (cont'd)

(e) Share award scheme (cont'd)

Maximum number of Award Shares Grant

The aggregate number of Award Shares, whether they are new shares to be allotted and issued by the Company or existing shares to be purchased on-market by the Trustee, underlying all grants made pursuant to the Share Award Scheme shall not exceed in total 10% of the Company's issued share capital as at the adoption date.

Rights attached to the Award Shares

Any Award Shares transferred to a Beneficiary pursuant to the Share Award Scheme will be subject to all the provisions of the Articles and will form a single class with the fully paid shares in issue on the relevant date.

Shares awarded

The Board has resolved to award an aggregate of 37,862,500 shares to Mr. Jiang Yulin ("Mr Jiang"), the Chairman of the Board and an Executive Director, on 9 December 2016. The issue and allotment of new shares to Mr. Jiang has been approved by the shareholders of the Company at its extraordinary general meeting ("EGM") on 29 March 2018.

The shares will be issued and allotted by the Company to Mr. Jiang by six batches (subject to fulfilment of the vesting conditions):

Batch	**Date**	**Number of shares to be vested**
1	30 September 2018	3,786,250
2	31 March 2019	3,786,250
3	31 March 2020	7,572,500
4	31 March 2021	7,572,500
5	31 March 2022	7,572,500
6	31 March 2023	7,572,500

Notes to the Financial Statements
31 December 2018

30. CAPITAL AND RESERVES (cont'd)

(e) Share award scheme (cont'd)

Vesting conditions

(i) the approval by the independent shareholders at the EGM in respect of the issue and allotment of the Connected Award Shares pursuant to the specific mandate obtained at the EGM;

(ii) the granting of the listing and dealing approval by the Hong Kong Stock Exchange in respect of the Connected Award Shares; and

(iii) the achievement of (i) a growth rate of not less than 10% on the average closing market capitalisation of the Company (the "Average Market Capitalisation") throughout the first half of year 2018 based on the 30 days average closing market capitalisation of the Company immediately preceding the date of adoption of the Share Award Scheme (the "Benchmark Market Capitalisation"); (ii) a growth rate of not less than 15% on the average closing market capitalisation of the Company throughout the second half of year 2018 based on the Benchmark Market Capitalisation; and (iii) expected return on equity (the "Expected ROE") by the Company in each of the second to fifth year as recommended by the Remuneration Committee and approved by the Board from time to time, taking into account the economic environment and other appropriate factors as it thinks fit. The Remuneration Committee may also make recommendations on any adjustments for the forthcoming year for the Board's approval, taking into account the above factors. In any event, the Expected ROE will not be less than 12% (the "Minimum Expected ROE").

In determining whether the growth rate of the average closing market capitalisation of the Company (the "Average Cap. Growth") is met, the Company will calculate the Average Cap. Growth for each of the first half and second half of year 2018 based on the following formula:

For the first half of year 2018:

$$\text{Increase in market capitalisation of the Company} = \frac{\text{Average Market Capitalisation}}{\text{Benchmark Market Capitalisation}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalisation shall be calculated by dividing the sum of market capitalisation of the Company for the period commencing on 1 January 2018 and ending on 30 June 2018 (both dates inclusive) (the "2018 First Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalisation shall be calculated by the sum of market capitalisation of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

As the increase in market capitalisation of the Company is less than 10% for the 2018 first Six-Month Period, the first batch of the Connected Award Shares was not vested.

Notes to the Financial Statements

31 December 2018

30. CAPITAL AND RESERVES (cont'd)

(e) Share award scheme (cont'd)

For the second half of year 2018:

$$\text{Increase in market capitalisation of the Company} = \frac{\text{Average Market Capitalisation}}{\text{Benchmark Market Capitalisation}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalisation shall be calculated by dividing the sum of market capitalisation of the Company for the period commencing on 1 July 2018 and ending on 31 December 2018 (both dates inclusive) (the "2018 Second Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalisation shall be calculated by the sum of market capitalisation of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

The second batch of the Connected Award Shares with the vesting date on 31 March 2019 shall vest if the increase in market capitalisation of the Company for the 2018 Second Six-Month Period is not less than 15% (see note 40).

In determining whether the Expected ROE is met, the Company will calculate the ROE of each year based on the following formula:

$$\text{Expected ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Where,

(a) Net Income shall be the net profit before taxation, interest, amortisation and extraordinary item(s) of non-recurring in nature as shown in the latest published audited consolidated financial results of the Group before the relevant vesting date; and

(b) Shareholders' Equity shall be the total equity attributable to equity shareholders of the Company as shown in the audited consolidated financial results of the Group published in the year preceding the relevant vesting date.

The remaining batches of the Connected Award Shares with the vesting dates on 31 March 2020, 2021, 2022 and 2023 respectively shall vest if the ROE for the respective year is not less than 12%.

Any change in the above vesting conditions (including the Minimum Expected ROE) will be subject to the approval by the independent shareholders.

Notes to the Financial Statements

31 December 2018

30. CAPITAL AND RESERVES (cont'd)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. It is the Group's strategy to keep the adjusted net debt-to-capital ratio as low as feasible. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

31. NON-CONTROLLING INTERESTS

The following subsidiaries have non-controlling interests ("NCI") that are material to the Group:

Name	Principal place of business	Operating Segment	Ownership interest held by NCI 2018	2017
SWAN subgroup*	United States of America	Hospitality	**15%**	15%
PRIP subgroup**	Hong Kong	Healthcare	**49%**	49%

* SWAN subgroup consists of SWAN Holdings Limited, its subsidiaries, joint arrangements and associates (collectively known as "SWAN").

** PRIP subgroup consists of PRIP Communications Limited and its wholly-owned subsidiaries.

Notes to the Financial Statements

31 December 2018

31. NON-CONTROLLING INTERESTS (cont'd)

The summarised financial information for the above subsidiaries are prepared in accordance with HKFRS, modified for fair value adjustments on acquisition and before any inter-company elimination:

	SWAN HK$'000	PRIP HK$'000	Total HK$'000
2018			
Current assets	**86,212**	**18,259**	
Non-current assets	**157,305**	**135,755**	
Current liabilities	**(28,422)**	**(1,120)**	
Non-current liabilities	**(74,906)**	**(15,938)**	
Net assets	**140,189**	**136,956**	
NCI of subsidiaries	**(2,255)**	–	
Net assets attributable to equity shareholders	**137,934**	**136,956**	
Net assets attributable to NCI	**20,690**	**67,108**	
Add: NCI of subsidiaries (as above)	**2,255**	–	
Total net assets attributable to NCI	**22,945**	**67,108**	**90,053**
Revenue	**115,538**	**26,552**	
(Loss)/Profit for the year	**(36,371)**	**4,041**	
Loss attributable to NCI of subsidiaries	**10,529**	–	
(Loss)/Profit for the year attributable to equity shareholders	**(25,842)**	**4,041**	
(Loss)/Profit for the year attributable to NCI	**(3,876)**	**1,980**	
Add: Loss attributable to NCI of subsidiaries (as above)	**(10,529)**	–	
Total (loss)/profit for the year attributable to NCI	**(14,405)**	**1,980**	**(12,425)**
Cash flows generated from operating activities	**3,811**	**8,005**	**11,816**
Cash flows used in investing activities	**(761)**	–	**(761)**
Cash flows used in financing activities	**(9,188)**	**(8,827)**	**(18,015)**

Notes to the Financial Statements

31 December 2018

31. NON-CONTROLLING INTERESTS (cont'd)

	SWAN HK$'000	PRIP HK$'000	Total HK$'000
2017			
Current assets	37,215	8,995	
Non-current assets	226,848	148,530	
Current liabilities	(27,899)	(1,938)	
Non-current liabilities	(71,960)	(15,911)	
Net assets	164,204	139,676	
NCI of subsidiaries	6,815	–	
Net assets attributable to equity shareholders	171,019	139,676	
Net assets attributable to NCI	25,653	68,441	
Add: NCI of subsidiaries (as above)	(6,815)	–	
Total net assets attributable to NCI	18,838	68,441	87,279
Revenue	105,951	6,669	
Loss for the year	(37,348)	(742)	
Loss attributable to NCI of subsidiaries	12,164	–	
Loss for the year attributable to equity shareholders	(25,184)	(742)	
Loss for the year attributable to NCI	(3,777)	(364)	
Add: Loss attributable to NCI of subsidiaries (as above)	(12,164)	–	
Total loss for the year attributable to NCI	(15,941)	(364)	(16,305)
Cash flows (used in)/generated from operating activities	(20,685)	5,108	(15,577)
Cash flows (used in)/generated from investing activities	(113,226)	3	(113,223)
Cash flows generated from financing activities	37,881	790	38,671

Notes to the Financial Statements

31 December 2018

32. PRINCIPAL SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated:

			Proportion of Ownership Interest					
			2018			2017		
Company name/ Principal activities	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest %	Held by Company %	Held by Subsidiary %	Group's effective interest %	Held by Company %	Held by Subsidiary %
CES Capital Limited (Investment holding)	British Virgin Islands	1 share of US$1 each	**100**	**100**	**–**	100	100	–
SWAN Holdings Limited (Investment holding)	Bermuda	33,345,333 shares of US$1 each	**85**	**85**	**–**	85	85	–
SWAN USA, Inc. (Investment holding)	United States of America	100 common stocks of US$0.01 each	**85**	**–**	**100**	85	–	100
Richfield Hospitality Inc. (Investment holding and provision of hospitality related services)	United States of America	100 common stocks of US$1,000.01 each	**85**	**–**	**100**	85	–	100
Sceptre Hospitality Resources, LLC. (Provision of hotel reservation services)	United States of America	100 common stocks of US$0.01 each	**43**	**–**	**51**	43	–	51
Cross-Tinental S.L. (Provision of reservation services)	Barcelona	30,000 shares of EUR1 each	**43**	**–**	**100**	43	–	100
PRIP Communications Limited (Provision of healthcare related services)	Hong Kong	1,333,172 shares	**51**	**51**	**–**	51	51	–
DIAM Holdings Co., Ltd. (Provision of healthcare related services)	Korea	40,000 shares of KRW5,000 each	**51**	**–**	**100**	51	–	100
Delightful Aesthetics Investment Limited (Investment holding and provision of money lending and related business)	Hong Kong	10,000 shares	**100**	**100**	**–**	100	100	–
珠海橫琴天醫醫療管理有限公司 (provision of healthcare related services)	People Republic of China	RMB5,000,000	**100**	**–**	**100**	100	–	100

Notes to the Financial Statements

31 December 2018

33. ACQUISITION OF SUBSIDIARIES

(a) *PRIP Communications Limited ("PRIP") and its subsidiary*

On 31 August 2017, the Group through acquisition and subscription, acquired 51% of the shares and voting interests in PRIP. Following the acquisition, the Group obtained control of PRIP and its wholly-owned subsidiary, DIAM Holdings Co., Ltd.

For the four months ended 31 December 2017, PRIP contributed revenue of HK$6.7 million and profit of HK$1.8 million to the Group's results. If the acquisition had occurred on 1 January 2017, management estimates that consolidated revenue would have been HK$20.0 million and consolidated profit of the year would have been HK$5.4 million. In determining these amounts, management had assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Fair value of the consideration and the amount of non-controlling interest in the acquiree

The following table summarises the acquisition-date fair value of each major class of consideration and the amount of non-controlling interest in the acquiree:

	HK$'000
Cash	118,446
Equity instruments issued (16,530,000 ordinary shares)	37,193
Dividend right forgone by non-controlling shareholders	(12,632)
Revenue and profit guarantee from non-controlling shareholders	(488)
Put and call option	16,787
Fair value of the consideration	159,306
Non-controlling interests	68,894
Total	228,200

The fair value of the ordinary shares issued was based on the market price of the quoted shares of the Company at 31 August 2017 of HK$2.25 per share.

The fair values of the dividend right forgone by non-controlling shareholders of HK$12,632,000, and revenue and profit guarantee from non-controlling shareholders of HK$488,000 were classified as non-current other financial assets in the consolidated statement of financial position as at 31 December 2017.

The fair value of the put and call option of HK$16,787,000 was classified as non-current other financial liabilities in the consolidated statement of financial position as at 31 December 2017.

Notes to the Financial Statements

31 December 2018

33. ACQUISITION OF SUBSIDIARIES (cont'd)

(a) PRIP Communications Limited ("PRIP") and its subsidiary (cont'd)

Acquisition-related costs

The Group incurred acquisition-related costs of HK$3,918,000 on legal fees and due diligence costs. These costs had been included in "administrative expenses".

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

	HK$'000
Intangible assets – trademarks	126,723
Intangible assets – customer contracts	27,110
Property, plant and equipment	121
Trade and other receivables	2,272
Cash	684
Trade and other payables	(380)
Deferred tax liabilities	(15,929)
Total identifiable net assets	140,601

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	**Valuation technique**
Intangible assets – trademarks	Discounted cash flow method which involves the estimation of cash flows from royalty income arising from licensing of trademark at the date of acquisition based on the terms of the trademark licensing agreement and discounting the cash flows with a risk adjusted discount rate.
Intangible assets – customer contracts	Discounted cash flow method which involves the estimation of cash flows from the existing customer contracts at the date of acquisition based on the terms of the contracts and discounting the cash flows with a risk adjusted discount rate.

In 2018, the purchase price allocation exercise was finalised. No adjustment was made to the acquisition-date fair value of the consideration, identifiable assets acquired and liabilities assumed determined provisionally in 2017 on finalisation of the purchase price allocation exercise.

Notes to the Financial Statements

31 December 2018

33. ACQUISITION OF SUBSIDIARIES (cont'd)

(a) PRIP Communications Limited ("PRIP") and its subsidiary (cont'd)

Goodwill

Goodwill arising from the acquisition had been recognised as follows:

	HK$'000
Total consideration transferred	159,306
NCI, based on the proportionate interest in the recognised amounts of the assets and liabilities of the acquiree	68,894
Fair value of identifiable net assets	(140,601)
Goodwill	87,599

The goodwill was attributable mainly to the healthcare business, and is not expected to be deductible for tax purposes.

(b) Cross-Tinental S. L. ("CTSL")

On 17 August 2017, the Group acquired 100% of the shares and voting interests in CTSL and obtained control of CTSL. CTSL is incorporated in Spain.

For the four months ended 31 December 2017, CTSL contributed revenue of HK$3.0 million and loss of HK$0.3 million to the Group's results. If the acquisition had occurred on 1 January 2017, management estimates that the revenue would have been HK$9.0 million and profit of the year would have been HK$0.9 million. In determining these amounts, management had assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Fair value of the consideration

The following table summarises the acquisition-date fair value of each major class of consideration transferred:

	HK$'000
Cash	4,581
Variable consideration – to be settled through cash	1,719
Total consideration transferred	6,300

The variable consideration was dependent on the level of revenues to be generated from the existing customers at the date of acquisition for the next 2 years from the date of acquisition. The variable consideration was payable at the end of 2 years from the date of acquisition. The fair value of the variable consideration of HK$1,719,000 was classified as deferred consideration in the consolidated statement of financial position as at 31 December 2017.

The Group had agreed to pay the vendor of CTSL additional consideration ("contingent consideration") if the identified existing contracts stated in the sale and purchase agreement were renewed or the identified new contracts stated in the sale and purchase agreement were obtained. The additional consideration is determined based on the agreed rate stated in the sale and purchase agreement. The Group had determined the fair value of contingent consideration to be Nil as at 31 December 2017.

Notes to the Financial Statements

31 December 2018

33. ACQUISITION OF SUBSIDIARIES (cont'd)

(b) Cross-Tinental S. L. ("CTSL") (cont'd)

Acquisition-related costs

The Group incurred acquisition-related costs of HK$22,000 on legal fees and due diligence costs. These costs have been included in "administrative expenses".

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

	HK$'000
Intangible assets – customer contracts	5,686
Property plant and equipment	12
Trade and other receivables	1,142
Cash	454
Trade and other payables	(994)
Total identifiable net assets	6,300

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	**Valuation technique**
Intangible assets – customer contracts	Discounted cash flow method which involves the estimation of cash flows from the existing customer contracts at the date of acquisition based on the terms of the contracts and discounting the cash flows with a risk adjusted discount rate.

In 2018, the purchase price allocation exercise was finalised. No adjustment was made to the acquisition-date fair value of the consideration, identifiable assets acquired and liabilities assumed determined provisionally in 2017 on finalisation of the purchase price allocation exercise.

(c) Summary of cash flows arising from the acquisition of the above subsidiaries:

	PRIP and its wholly-owned subsidiary HK$'000	**CTSL HK$'000**	**Total HK$'000**
Cash consideration paid	118,446	4,581	123,027
Less: Cash acquired	(684)	(454)	(1,138)
Net cash outflow for the acquisition of subsidiaries	117,762	4,127	121,889

Notes to the Financial Statements

31 December 2018

34. FINANCIAL INSTRUMENTS BY CATEGORY

An analysis of the Group's financial instruments is set out below:

	Note	Amortised cost HK$'000	Financial assets at FVPL HK$'000	Financial assets at FVOCI HK$'000	Liabilities at amortised cost HK$'000	Financial liabilities at FVPL HK$'000
2018						
Assets						
Other financial assets	18	**–**	**7,813**	**538**	**–**	**–**
Trade and other receivables, excluding prepayments	19	**65,045**	**–**	**–**	**–**	**–**
Trading securities	20	**–**	**16,730**	**–**	**–**	**–**
Loan receivables	21	**171,699**	**–**	**–**	**–**	**–**
Cash and cash equivalents	22	**114,346**	**–**	**–**	**–**	**–**
		351,090	**24,543**	**538**	**–**	**–**
Liabilities						
Trade and other payables, excluding deferred income	23	**–**	**–**	**–**	**30,309**	**–**
Deferred consideration	24	**–**	**–**	**–**	**–**	**1,728**
Interest-bearing borrowings	25	**–**	**–**	**–**	**29,001**	**–**
Loans from non-controlling interests	26	**–**	**–**	**–**	**33,901**	**–**
Other financial liabilities	29	**–**	**–**	**–**	**–**	**8,272**
		–	**–**	**–**	**93,211**	**10,000**
2017						
Assets						
Other financial assets	18	–	13,120	18,321	–	–
Trade and other receivables, excluding prepayments	19	39,707	–	–	–	–
Trading securities	20	–	47,077	–	–	–
Loan receivables	21	113,408	–	–	–	–
Cash and cash equivalents	22	134,857	–	–	–	–
		287,972	60,197	18,321	–	–
Liabilities						
Trade and other payables, excluding deferred income	23	–	–	–	29,045	–
Deferred consideration	24	–	–	–	–	1,719
Interest-bearing borrowings	25	–	–	–	29,868	–
Loans from non-controlling interests	26	–	–	–	42,787	–
Other financial liabilities	29	–	–	–	–	16,787
		–	–	–	101,700	18,506

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables (including loan receivables). Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

Trade and other receivables, and loan receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 14% (2017: 40%) and 39% (2017: 51%) of the total trade and loan receivables was due from the Group's largest customer and the five largest customers, respectively, within the hospitality business and money lending and related business segments.

At the reporting date, the Group has significant concentration of credit risk on its loan receivables from three borrowers arising from its money lending and related business segment. Except for these receivables, there was no significant concentration of credit risk.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 1 month from the date of invoice. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade and other receivables, and loan receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(a) Credit risk (cont'd)

Trade and other receivables, and loan receivables (cont'd)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and loan receivables as at 31 December 2018.

	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	187,389	–
1-30 days past due	13,881	–
31-60 days past due	2,983	–
More than 60 days past due	11,182	(62)
	215,435	(62)

HK$171,699,000 (2017: HK$113,408,000) of the gross carrying amount relate to loan receivables from three borrowers. One of the borrowers defaulted in principal payment on the repayment date. In accordance to the loan agreement, the Group imposed a default interest of approximately HK$6.2 million which was subsequently collected. The loan was renewed for another year. In respect of the remaining two loans, both borrowers defaulted on the interest payments which were collected consequently.

One of the loans is secured by a pledge of properties owned by two individuals who have extended personal guarantees in favour of the borrower, and another loan is secured by personal guarantee from a shareholder of the borrower. In respect of the remaining loan, a related corporation undertakes to repay the outstanding loan in the event that the borrower does not make the loan repayment on its maturity date.

Based on the estimated recoverable amounts from the realisation of the pledged properties and other possible source of repayment, including personal guarantees, and historical payment trend, the Group has assessed that no impairment was deemed necessary for the outstanding loan principal and interest receivable at the reporting date. In addition, based on the historical default rates of trade and other receivables, the Group believes that no significant impairment allowance is required at the reporting date.

There was no change on impairment loss allowance on the initial application of HKFRS 9 as at 1 January 2018.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(n) – policy applicable prior to 1 January 2018). The aging analysis of trade receivables that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	8,886
Less than 3 months overdue	19,948
3 to 12 months overdue	2,279
	22,227
	31,113

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(a) Credit risk (cont'd)

Trade and other receivables, and loan receivables (cont'd)

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to customers having a good payment track record with the Group. Based on past experience, management believes that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group does not hold any collateral over these balances.

The movements in the allowance for impairment loss during the year are as follows:

	2018 **HK$'000**	**2017** **HK$'000**
At 1 January	**207**	385
Reversal of impairment loss	**(145)**	(178)
At 31 December	**62**	207

Cash and cash equivalents

Cash and deposits are placed with banks and financial institutions which are regulated. Impairment on cash and deposits have been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and deposits have low credit risk based on the external credit ratings of the counterparties. The amount of the allowance on cash and deposits was negligible.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Except for the interest-bearing borrowings, the total contractual undiscounted cash flows of the Group's non-derivative financial liabilities are the same as their carrying amounts as their remaining contractual maturities are within one year.

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(b) Liquidity risk (cont'd)

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the reporting period) and the earliest date the Group can be required to pay:

	Contractual undiscounted cash outflows				
	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	After 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Non-derivative contractual liabilities					
2018					
Interest-bearing borrowings	**(2,180)**	**(31,884)**	**–**	**(34,064)**	**(29,001)**
Loans from non-controlling interests	**(21,961)**	**(11,940)**	**–**	**(33,901)**	**(33,901)**
Deferred consideration	**(1,728)**	**–**	**–**	**(1,728)**	**(1,728)**
Trade and other payables	**(35,312)**	**–**	**–**	**(35,312)**	**(35,312)**
	(61,181)	**(43,824)**	**–**	**(105,005)**	**(99,942)**
2017					
Interest-bearing borrowings	(2,176)	(8,702)	(25,297)	(36,175)	(29,868)
Loans from non-controlling interests	–	(42,787)	–	(42,787)	(42,787)
Deferred consideration	–	(1,719)	–	(1,719)	(1,719)
Trade and other payables	(33,578)	–	–	(33,578)	(33,578)
	(35,754)	(53,208)	(25,297)	(114,259)	(107,952)

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from its interest-bearing borrowings which are pegged at fixed rates.

Interest rate profile

The weighted average effective interest rates per annum relating to the borrowings at the end of the reporting period is 4.21% (2017: 4.21%).

(d) Currency risk

The Group is exposed to foreign currency risk through deposits and withdrawals of fixed deposits, sales and purchases of the trading securities, and loan receivables that are denominated in a currency other than the functional currency of the entities to which they relate. The currencies giving rise to these risks are mainly the Sterling Pound, Singapore Dollar, Philippine Peso, Renminbi, South Korean Won, and US Dollar.

When necessary, the Group uses forward exchange contracts to hedge its specific currency risks. However, forward exchange contracts that do not qualify for hedge accounting are accounted for as trading instruments. As at the reporting date, the Group had no outstanding forward exchange contracts.

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(d) Currency risk (cont'd)

(i) Recognised assets and liabilities

In respect of trade receivables and payables denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level.

All of the Group's borrowings are denominated in the functional currency of the entity taking out the loan or, in the case of group entities whose functional currency is Hong Kong dollars, in either Hong Kong dollars or United States dollars. Accordingly, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

(ii) Exposure to foreign currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the group entities to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency is excluded.

	Sterling Pound HK$'000	Singapore Dollar HK$'000	Philippine Peso HK$'000	Renminbi HK$'000	South Korean Won HK$'000	US Dollar HK$'000
2018						
Trading securities	**–**	**–**	**296**	**–**	**–**	**–**
Trade and other receivables	**–**	**–**	**–**	**6,190**	**–**	**14,507**
Loan receivables	**–**	**–**	**–**	**9,107**	**–**	**162,592**
Cash and cash equivalents	**61**	**1,871**	**–**	**879**	**4,033**	**93,975**
Trade and other payables	**–**	**(856)**	**–**	**–**	**(652)**	**–**
Overall exposure arising from recognised assets and liabilities	**61**	**1,015**	**296**	**16,176**	**3,381**	**271,074**
2017						
Trading securities	–	–	373	–	–	23,520
Trade and other receivables	–	–	–	12,306	–	2,491
Loan receivables	–	–	–	11,899	–	101,509
Cash and cash equivalents	65	269	–	46,699	407	65,586
Trade and other payables	–	(600)	–	(584)	–	–
Overall exposure arising from recognised assets and liabilities	65	(331)	373	70,320	407	193,106

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(d) Currency risk (cont'd)

(iii) Sensitivity analysis

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date. The analysis assumes that all other variables, in particular, interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

A 10% (2017: 10%) strengthening of the following foreign currencies against the functional currency of each of the Group's entities at the end of the reporting period would impact the Group's loss after tax and revenue reserve by the amounts shown below. There is no impact on the other components of consolidated equity. A similar 10% weakening of the foreign currencies would have an equal but opposite effect.

	Decrease in loss after tax and increase in revenue reserve 2018 HK$'000	Decrease/ (Increase)in loss after tax and increase in revenue reserve 2017 HK$'000
Sterling Pound	**6**	7
Singapore Dollar	**102**	(33)
Philippine Peso	**30**	37
Renminbi	**1,618**	7,032
South Korean Won	**338**	41
US Dollar	**27,107**	19,311

Results of the analysis as presented in the above table represent the effect of the Group's profit after tax and revenue reserve measured in the respective foreign currencies, translated into Hong Kong dollar at the exchange rate ruling at the end of the reporting period for presentation purposes.

The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (note 20).

The Group's listed equity investments is listed on The Philippines Stock Exchange, Inc. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to other industry indicators, as well as the Group's liquidity needs.

In respect of the Group's equity investment listed on The Philippines Stock Exchange, Inc., based on the historical trend analysis, management does not expect significant equity price movements on this investment and hence, it is not expected to have any significant impact on the Group's loss after tax, revenue reserve and other components of consolidated equity, assuming that all other variables remain constant.

The Group also holds investments in unlisted marketable equity mutual funds.

At 31 December 2018, a 10% (2017: 10%) increase in the net asset value of the Group's investment in unlisted marketable equity mutual funds at the end of the reporting period would decrease the Group's loss after tax and increase the Group's revenue reserve by approximately HK$1,643,000 (2017: HK$2,318,000). A similar 10% decrease in the net asset value would have an equal but opposite effect.

The sensitivity analysis has been determined assuming that the reasonably possible changes in stock prices, net asset values or other risk variables had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the relevant stock price, net asset value or the relevant risk variables over the period until the next annual end of the reporting period. The analysis is performed on the same basis for 2017.

Notes to the Financial Statements
31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement

(i) Financial instruments measured at fair value

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of inputs used in the valuation techniques as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

		Fair value measurements as at 31 December 2018 categorised into				Fair value measurements as at 31 December 2017 categorised into		
	Fair value at 31 December 2018 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Fair value at 31 December 2017 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements								
Assets:								
Trading securities								
– Listed equity securities	**296**	**296**	**–**	**–**	23,893	23,893	–	–
– Unquoted investment	**16,434**	**–**	**–**	**16,434**	23,184	–	–	23,184
Other financial assets								
– FVPL	**7,813**	**–**	**–**	**7,813**	13,120	–	–	13,120
– FVOCI	**538**	**–**	**–**	**538**	–	–	–	–
Liabilities:								
Deferred consideration	**(1,728)**	**–**	**–**	**(1,728)**	(1,719)	–	–	(1,719)
Other financial liabilities	**(8,272)**	**–**	**–**	**(8,272)**	(16,787)	–	–	(16,787)
	15,081	**296**	**–**	**14,785**	41,691	23,893	–	17,798

During the years ended 31 December 2018 and 31 December 2017, there were no transfers between levels.

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement (cont'd)

(i) Financial instruments measured at fair value (cont'd)

The movements in the Level 3 financial instruments measured at fair value are as follows:

	Trading securities HK$'000	Other financial assets HK$'000	Deferred consideration HK$'000	Other financial liabilities HK$'000
At 1 January 2017	14,418	–	–	–
Net unrealised gain recognised in profit or loss	8,766	–	–	–
Arising from business combinations	–	13,120	(1,719)	(16,787)
At 31 December 2017 (note)	23,184	13,120	(1,719)	(16,787)
Impact on initial application of HKFRS 9	–	47,350	–	–
Adjusted at 1 January 2018	**23,184**	**60,470**	**(1,719)**	**(16,787)**
Return of capital	**–**	**(43,800)**	**–**	**–**
Net realised and unrealised (loss)/gain recognised in profit or loss	**(6,750)**	**(5,307)**	**–**	**8,515**
Net unrealised loss recognised in other comprehensive income	**–**	**(3,027)**	**–**	**–**
Translation differences	**–**	**15**	**(9)**	**–**
At 31 December 2018	**16,434**	**8,351**	**(1,728)**	**(8,272)**

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 1(c).

From 1 January 2018, any gain or loss arising from the remeasurement of the Group's financial assets designated at FVOCI are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the financial assets designated at FVOCLI, the amount accumulated in other comprehensive income is transferred directly to retained earnings. Prior to 1 January 2018, any gains arising from the disposal was recognised in profit or loss.

The fair value gain or loss of the trading securities for the period recognised in profit or loss is presented in "other net gains" in the consolidated statement of profit or loss.

Although the Group believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values.

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement (cont'd)

(i) Financial instruments measured at fair value (cont'd)

Information about Level 3 fair value measurements

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value measurement
Other financial assets – dividend right forgone by non-controlling shareholders	Discounted cash flows	Discount rate 13.5% (2017: 13.4%)	The fair value increases as the discount rate decreases
Other financial assets – revenue and profit guarantees from non-controlling shareholders	Discounted cash flows	Discount rate 13.5% (2017: 13.4%)	The fair value increases as the discount rate decreases
Trading securities – unquoted investment	Net assets value	Net asset value of the fund	The fair value increases as the net asset value of the fund increases
Other financial assets – unquoted investment at FVOCI	Net assets value	Net asset value of the fund	The fair value increases as the net asset value of the fund increases
Deferred consideration	Discounted cash flows	Discount rate 7.0% (2017: 7.0%)	The fair value increases as the discount rate decreases
Other financial liabilities – put and call option	Black-Scholes Option Pricing Model	Volatility rate 44.0% (2017: 46.7%)	Option price increases when volatility rate increases
		Risk-free rate 2.5% (2017: 1.4%)	Call option price increases and put option price decreases when risk-free rate increases

(ii) Financial instruments not measured at fair value but for which the fair value is disclosed.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 31 December 2017, except for fixed rate borrowings (2017: available-for-sale financial assets and fixed rate borrowings).

In 2017, fair value information has not been disclosed for the Group's available-for-sale financial assets that are carried at cost less impairment loss of HK$18.3 million because fair value cannot be measured reliably. These financial assets represent the capital contribution in a fund that is not quoted on any active market. The Group does not intend to dispose of these financial assets in the foreseeable future.

Upon initial application of HKFRS 9 at 1 January 2018, this investment was reclassified to financial assets designated at FVOCI (non-recycling).

Notes to the Financial Statements

31 December 2018

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement (cont'd)

(ii) Financial instruments not measured at fair value but for which the fair value is disclosed. (cont'd)

The carrying amounts, fair values and the level of fair value hierarchy of the fixed rate borrowings are as follows:

			Fair value measurements categorised into		
	Carrying amounts HK$'000	Fair value HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
2018	**29,001**	**28,743**	**–**	**28,743**	**–**
2017	29,868	29,678	–	29,678	–

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments as at the end of the reporting period. The interest rate used is as follows:

	2018	2017
Fixed rate borrowings	**4.00%**	4.00%

36. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	**26,433**	29,767

Total remuneration is included in the administrative expenses.

Notes to the Financial Statements

31 December 2018

36. MATERIAL RELATED PARTY TRANSACTIONS (cont'd)

(b) Other related party transactions

In addition to the transactions and balances disclosed elsewhere, there were the following material related party transactions entered into on terms agreed between the parties during the year:

	2018 HK$'000	2017 HK$'000
Business venture in which a non-controlling shareholder of a subsidiary is the owner		
Income received from trademark licensing	**8,142**	2,695
Income received from provision of procurement, marketing and management services	**18,410**	3,974
Joint operation		
Income received from the provision of hospitality and other related services	**–**	549

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of the income from trademark licensing and provision of procurement, marketing and management services to a business venture in which a non-controlling shareholder of a subsidiary is the owner constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in pages 31 to 32 of the Directors' Report.

37. COMMITMENTS

At 31 December 2018 and 31 December 2017, the total future minimum lease payments under non-cancellable operating leases payable are as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**5,665**	4,136
After 1 year but within 5 years	**21,101**	7,917
After 5 years	**11,701**	20,678
	38,467	32,731

The leases typically run for an initial period of between one to ten (2017: one to ten) years. One of the leases includes an option to renew the lease on expiry. The leases do not include any contingent rental.

Notes to the Financial Statements

31 December 2018

38. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**482**	643
Interests in subsidiaries		**351,102**	351,092
Trade and other receivables		**23,037**	44,408
Total non-current assets		**374,621**	396,143
Current assets			
Trading securities		**16,730**	47,077
Trade and other receivables		**120,902**	25,074
Loan receivables		**171,699**	113,408
Cash and cash equivalents		**39,171**	115,689
		348,502	301,248
Current liabilities			
Trade and other payables		**(170,191)**	(154,855)
Provision for taxation		**(2,322)**	(2,322)
		(172,513)	(157,177)
Net current assets		**175,989**	144,071
Total assets less current liabilities		**550,610**	540,214
NET ASSETS		**550,610**	540,214
CAPITAL AND RESERVES	30		
Share capital		**398,980**	398,980
Share premium		**20,663**	20,663
Reserves		**130,967**	120,571
TOTAL EQUITY		**550,610**	540,214

Approved and authorised for issue on behalf of the board of directors on 26 April 2019.

Jiang Yulin	**Zhang Xian**
Chairman	*Chief Executive Officer*

Notes to the Financial Statements

31 December 2018

39. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

At 31 December 2018, the directors consider the immediate parent and ultimate controlling company of the Group to be China Tian Yuan Manganese Limited, a company incorporated in the Cayman Islands, and Ningxia Tianyuan Manganese Industry Co., Ltd., a company incorporated in the People's Republic of China, respectively. These entities do not produce financial statements available for public use.

40. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

The second batch of the Connected Award Shares was not vested to Mr. Jiang on 31 March 2019 since the increase in market capitalisation of the Company for the 2018 Second Six-Month Period is less than 15% (see note 30(e)).

41. COMPARATIVE INFORMATION

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

Notes to the Financial Statements

31 December 2018

42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, Leases

As disclosed in note 1(m), the Group currently classifies leases into finance leases and operating leases, and accounts for the lease arrangements differently, depending on the classification of the lease. Currently, the Group has only arrangements where it is acting as a lessee.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

Notes to the Financial Statements

31 December 2018

42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (cont'd)

HKFRS 16, Leases (cont'd)

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for office space which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 37, at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK$ 38.5 million, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets is approximately HK$ 32.4 million, after taking into account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

Corporate Information

Executive Directors
Jiang Yulin (Chairman)
Zhang Xian

Independent Non-Executive Directors
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin

Audit Committee
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin

Remuneration Committee
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin
Zhang Xian

Nomination Committee
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin
Jiang Yulin

Chief Executive Officer
Zhang Xian

Company Secretary
Chow Wai Hung

Auditors
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Public Accountants and Chartered Accountants
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Principal Bankers
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Registrars
Principal Registrar
Computershare Hong Kong Investor Services Limited

Branch Registrar
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Cayman Islands

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