圓通國際

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

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

2019 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Lam Chun Chin, Spencer *(Chief Executive Officer)*
Mr. Huang Yifeng *(Appointed on 21 January 2020)*

NON-EXECUTIVE DIRECTORS
Mr. Yu Huijiao *(Chairman)*
Mr. Pan Shuimiao *(Appointed on 21 January 2020)*
Mr. Li Xianjun *(Re-designated from an executive Director to a non-executive Director on 21 January 2020)*
Mr. Su Xiufeng *(Resigned on 21 January 2020)*
Mr. Zhu Rui *(Resigned on 21 January 2020)*
Mr. Lin Kai

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

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

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

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

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

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

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

CORPORATE GOVERNANCE COMMITTEE
Mr. Lam Chun Chin, Spencer *(Chairman)*
Mr. Li Xianjun *(Resigned on 21 January 2020)*
Mr. Huang Yifeng *(Appointed on 21 January 2020)*
Mr. Li Donghui
Mr. Xu Junmin
Mr. Chung Kwok Mo John

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Chiu & Partners

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AUDITOR
Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

COMPANY'S WEBSITE
www.ytoglobal.com

STOCK CODE
6123

CHAIRMAN'S STATEMENT

NEW GROWTH AND NEW CHALLENGES

In the year of 2019, the global trade has been still influenced by the trade war between China and US, and the Company has been facing severe challenges. According to the World Trade Organization's latest Goods Trade Barometer, world merchandise trade is expected to remain below the index's baseline value of 100. Even though the excellent performance of our fellows helps the Company maintain the high-level service quality, the financial result of this year is still lower than the expectations.

However, there are some highlights during this year. In 2019, the cross-border e-commerce business maintained a rapid growth. According to the General Administration of Customs of the PRC, the gross amount of import and export commodities retailed through the Custom's cross-border e-commerce management platform amounted to RMB186.2 billion, representing a year-on-year increase of 38%. Thanks to the opportunities brought by the vigorous development of the cross-border e-commerce business, the international express and parcel services of the Company still maintains extremely high growth rate and contributes a lot of profit. It represents about 16.5% of the total revenue of the Group during the FY2019. And the revenue from this segment increased from about HK$282.1 million during the FY2018 to about HK$642.3 million during the FY2019, representing a significant increase of about 127.7%. We can expect that the international express and parcel services will become the Company's most competitive product and the most important source of growth for the Company.

LOOKING TO THE FUTURE

The globalization is one of the key strategies for the Group in the future, which are namely "going global with the "Belt and Road" initiative", "going global with the cross-border e-commerce business" and "going global with the Chinese enterprises". The Group is willing to continuously implement the investments on this for realizing the strategic target, which is a world's leading integrated logistic service provider.

"Belt and Road" initiative is the most important opportunity for the Group in the next few years. We will seize this historical chance to assist "Made in China" to go global. We will deeply integrate the various resources of the Group to further enhance our competitiveness, thus provide more diversified and quality international logistic services to customers.

Even though the outbreak of the novel coronavirus ("COVID-19") leads to lots of negative impact on the global trade and global supply chain in the short period, the Group still remain positive about the future business. In the State Council's executive meeting chaired by Premier Li Keqiang on 24 March 2020, China will take further steps to boost the country's international air freight capacity to stabilize supply chains. Premier Li Keqiang stressed that development of an international logistics and delivery services system must be accelerated to uphold the smooth running of the industrial chain. As the top-level logistic company in China, YTO Express will take this responsibility to invest on the global supply chain to assist the globalization of Chinese manufacturers. The most importantly, the Company is the key strategic interface to connect with the globe of YTO Express.

Benefiting from the national policy and the resources of the parent company, we will continue to increase the investment on the network coverage, service quality, and information technology. It enables us to launch the full-chain international express products with the best price-performance ratio and provide customers with a more convenient and all-controllable international logistic service experience. As the globalization strategy of the Group, the international express will be one of the core business and contribute more revenue in the future.

THANK YOU

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

Yu Huijiao
Chairman

Hong Kong, 31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Board announces the audited annual results of the Group for the FY2019. During the FY2019, the demand for logistics and freight forwarding services decreased after the continued rise in the past consecutive years. Such drop was due to the trade war between China and the United States and the global macroeconomic uncertainties. This led to a drop in the demand for air freight services brought by customers in the air freight segment resulted in a reduction in the Group's revenue during the FY2019.

Financial Results

The Group recorded revenue of about HK$3,897.9 million during the FY2019 (FY2018: about HK$4,462.8 million), representing a decrease of about 12.7%. Gross profit amounted to about HK$550.9 million during the FY2019 (FY2018: about HK$595.1 million), representing a decrease of about 7.4%. Gross profit margin during the FY2019 was about 14.1% (FY2018: about 13.3%). Net profit was about HK$28.6 million during the FY2019 (FY2018: about HK$105.7 million), representing a decrease of about 72.9% while the net profit attributable to owners of the Company decreased by about 74.9% to about HK$26.1 million during the FY2019 (FY2018: about HK$104.2 million). The decrease in profit was mainly due to (a) the peripheral economic downturn caused by the trade war between China and the United States and the global macroeconomic uncertainties; (b) the decrease in demand for air freight services from customers in the air freight segment; (c) the increment of staff cost due to salary increment and recognition of expenses related to the share awards; and (d) the recognition of impairment loss on goodwill and intangible assets of about HK$20.0 million arising from the acquisition of Yizun International Freight Forwarding (Shanghai) Co., Ltd.* (翼尊國際貨運代理（上海）有限公司) ("Best Loader Shanghai"). Such impairment arises as the management of the Group decided that Best Loader Shanghai should gradually cease its business since 2020. The cessation of business was mainly due to the fact that the geographical focus of Best Loader Shanghai (i.e. India, Turkey and Middle East) was no longer inline with the Group's current strategy to focus on the United States, Europe and other Asia markets. Please refer to notes 18 and 19 to the consolidated financial statements in this annual report for further details on such impairment loss.

Segmental Analysis

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

Air Freight

The air freight forwarding business continued to constitute the largest business segment of the Group, representing about 56.5% of the Group's total revenue during the FY2019 (FY2018: about 70.1%). It principally involves arranging shipment upon receipt of booking instructions from customers, obtaining cargo space from airlines, preparing the relevant documentation, and upon delivery to the destination, arranging customs clearance and cargo handling. The Group is well recognised in the logistics industry, having received numerous accolades from international organisations and major airlines since 2000, including "Top Agent Award" from Cathay Pacific Cargo each year since 2006. Consequently, the Group has become the preferred business partner of renowned companies from around the world, hailing from the garment, footwear and electronic industries, delivery of small parcels for e-commerce business and among others.

During the FY2019, the air freight forwarding business recorded revenue of about HK$2,201.9 million (FY2018: about HK$3,129.3 million), representing a decrease of about 29.6%. Gross profit of the segment also decreased from about HK$325.7 million during the FY2018 to about HK$238.6 million during the FY2019, representing a decrease of about 26.7%. In respect of air import and export tonnage, the Group noted a total decrease of tonnage of about 24.2% for the FY2019 when compared to the FY2018. During the FY2019, the Group closed one office in San Francisco. As such, 53 offices around the world remained as at 31 December 2019, out of which 47 offices are located in 11 Asian countries and territories, comprising Hong Kong, the PRC, Cambodia, India, Indonesia, Japan, Malaysia, Singapore, Thailand, the United Arab Emirates and Vietnam, two offices in Europe and four offices in America.

BUSINESS REVIEW (CONTINUED)

Segmental Analysis (Continued)

Ocean Freight

Contributing about 21.9% of the Group's total revenue during the FY2019 (FY2018: about 19.2%), the ocean freight forwarding business principally involves organising shipments, arranging customs clearance and haulage services. The established relationships with trade partners and shipping lines, together with the in-house tailored freight operations system, have enabled the Group to capture the ocean freight market growth. During the FY2019, revenue of ocean freight segment slightly decreased by about 0.2% year-on-year to about HK$855.3 million (FY2018: about HK$857.0 million). Gross profit decreased to about HK$170.6 million during the FY2019 (FY2018: about HK$172.0 million), representing a slight decrease of about 0.8%. During the FY2019, the Group noted a decrease of tonnage of about 9.7% in respect of ocean freight shipping volume handled by the Group, which is due to the unstable market situation caused by the trade war between China and the United States.

Ancillary and Contract Logistics Services

Accounting for about 2.1% of the Group's total revenue during the FY2019 (FY2018: about 1.7%), the ancillary and contract logistics services segment includes warehousing, distribution and customs clearance. Warehousing includes pick and pack, labelling, quality inspection, sorting, pick-up and delivery services for export shipments from the shipper's location to the outgoing port and delivery of import shipments from arrival at the incoming port to the consignee's location. It is supported by the Group's information technology platform, which allows customers to conveniently trace inventory levels, incoming and outgoing shipments and other information online. During the FY2019, the Group sought to further adjust its warehouse operation and enhance its transshipment capacities to cope with the market conditions. This segment result was reflected with revenue of about HK$81.6 million during the FY2019 (FY2018: about HK$76.8 million), representing an increase of about 6.3% and the gross profit was about HK$53.0 million during the FY2019 (FY2018: about HK$44.2 million), representing an increase of about 19.9%.

International Express and Parcel Services

International express and parcel services which mainly consist of cross-border small parcels of delivery business is the Group's fast growing business to capture the development opportunities arising from the global cross-border e-commerce business. It represents about 16.5% of the total revenue of the Group during the FY2019 (FY2018: about 6.3%).The Group considers the e-commerce platform as the new channel and leverages on the strong synergy and integration capability of domestic and foreign logistic resources, so as to increase our market penetration and proactively establish the full-chain services, which ultimately provides baskets of cross-border package delivery solutions. YTO Express possesses a strong express logistic service network covering the PRC, which provides firm supports for the Group's development of end-to-end full-chain services. As at 31 December 2019, the Group has established cross-border full-chain services and has entered into strategic cooperation with 18 postal companies or express companies in 17 countries. Through the focus on developing and nurturing the delivery of product from the PRC to Taiwan, the Group has received positive comments from customers and market recognition.

The Group responded actively to changes in markets and competitive landscapes and proactively developed the international express and parcel services market during the FY2019. Benefiting from the rapid development of e-commerce in Southeast Asia, the continuous deepening of the cooperation with Hangzhou Cainiao Supply Chain Management Co., Limited ("Cainiao") and the development of new customers, revenue from international express and parcel services increased from about HK$282.1 million during the FY2018 to about HK$642.3 million during the FY2019, representing a significant increase of about 127.7%. During the FY2019, the Group has completed the delivery of about 74.7 million units in international express and parcel business during the FY2019 (FY2018: about 39.6 million).

In the meantime, by imposing stringent key performance indicator management and quality control to the services of suppliers, and implementing strict cost control measures, the timing and quality of our services has been improving, thus the gross profit margin and gross profit of the international express and parcel services business has been increasing correspondingly. During the FY2019, the gross profit of international express and parcel services increased to about HK$68.4 million (FY2018: about HK$25.9 million) representing a significant growth of about 164.1%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Segmental Analysis (Continued)

Others

The other businesses include combined shipments, trucking, general sales agency, e-commerce business and hand-carry services, the latter of which involves time sensitive shipments that allow the Group to charge higher fees and consequently benefit from higher profits. During the FY2019, the other businesses recorded revenue of about HK$116.8 million (FY2018: about HK$117.7 million), representing a decrease of about 0.7%, and gross profit of about HK$20.4 million (FY2018: about HK$27.4 million), representing a decrease of about 25.5%. The decrease of gross profit for other businesses during the FY2019 was due to the decrease of volume of trucking services.

Liquidity and Financial Resources

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

The Group's working capital as at 31 December 2019 was about HK$473.0 million, representing a slight decrease of about 0.7% from about HK$476.4 million as at 31 December 2018. The current ratio of the Group increased from about 1.71 times as at 31 December 2018 to about 1.90 times as at 31 December 2019. As at 31 December 2019, the Group's bank balances and cash amounted to about HK$269.0 million, representing an increase of about 11.8% from about HK$240.7 million as at 31 December 2018. For the FY2019, the Group had operating cash inflow of about HK$239.5 million (FY2018: operating cash inflow of about HK$63.9 million). As at 31 December 2019, the Group's outstanding bank borrowings amounted to about HK$30.6 million (as at 31 December 2018: about HK$189.0 million). The gearing ratio of the Group was about 5.1% as at 31 December 2019 (as at 31 December 2018: 32.5%). The gearing ratio was calculated as total bank borrowings divided by total equity of the Group. As at 31 December 2019, the Group maintained a net cash position (as at 31 December 2018: net cash position). The Group will continue to secure financing as and when the need arises.

Foreign Exchange Risk

In light of the nature of the Group's business, the Group is exposed to various foreign currency risks including RMB, USD, RM, SGD, THB, INR, EUR, GBP, CAD, JPY, VND, IDR, HUF, AED and TWD among which, RMB, EUR, USD and TWD are mostly used in the Group's business apart from HK$. Nevertheless, the Group's operations are predominately subject to the fluctuations of RMB since HK$ is pegged to USD. The Group did not use any derivative contracts to hedge against its exposure to currency risk during the FY2018 and the FY2019. The Group continued to exercise a strict control policy and did not engage in any speculative trading in debt securities or financial derivatives during the FY2019.

Capital Expenditure Commitments

As at 31 December 2019, the Group has the following capital expenditure commitments:

1. The contingent consideration of HK$2,250,000 (as at 31 December 2018: HK$4,500,000) to be determined based on the future financial performance of Best Loader Shanghai; and

2. The contingent consideration of HK$250,000 (as at 31 December 2018: HK$500,000) to be determined based on the future financial performance of Best Loader Logistics Company Limited ("Best Loader HK").

Please refer to the announcements of the Company dated 5 May 2017, 3 August 2018, 15 March 2019 and 30 March 2020 for further details.

BUSINESS REVIEW (CONTINUED)

Performance Guarantees

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

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

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

The 2017 NAV Guarantee and 2018 NAV Guarantee had been fulfilled. Given the fulfillment of the 2017 NAV Guarantee and the 2018 NAV Guarantee, On Time BVI had paid to the First Vendor in aggregate of HK$550,000 in cash for the payment of part of the consideration for the First Sale and Purchase Agreement. The Company's auditor is in the course of verifying the audited accounts of Best Loader HK for the year ended 31 December 2019. The Company will publish a further announcement to inform the Shareholders and its potential investors whether Best Loader HK has achieved the 2019 NAV Guarantee after the determination of the 2019 Accounts.

Please refer to the announcements of the Company dated 5 May 2017, 3 August 2018, 15 March 2019 and 30 March 2020 for further details in respect of the acquisition and the fulfillment of performance guarantees.

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

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

After the determination of the 2017 SH Accounts, the 2018 SH Accounts and the 2019 SH Accounts, respectively, On Line HK shall pay to the First Vendor the remaining balance of the purchase price in the following manner: (i) HK$2.7 million to the First Vendor if the 2017 SH NAV Guarantee is fulfilled; (ii) HK$2.25 million to the First Vendor if the 2018 SH NAV Guarantee is fulfilled; and (iii) HK$2.25 million to the First Vendor if the 2019 SH NAV Guarantee is fulfilled.

BUSINESS REVIEW (CONTINUED)

Performance Guarantees (Continued)

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

The 2017 SH NAV Guarantee and 2018 SH NAV Guarantee had been fulfilled. Given the fulfillment of the 2017 SH NAV Guarantee and the 2018 SH NAV Guarantee, On Line HK had paid to the First Vendor in aggregate of HK$4,950,000 in cash for the payment of part of the consideration for the Second Sale and Purchase Agreement. Based on the 2019 SH Accounts, the net assets value of Best Loader Shanghai for the financial year ended 31 December 2019 was about RMB12.2 million (equivalent to about HK$13.6 million). Therefore, the 2019 SH NAV Guarantee had been fulfilled. Given the fulfillment of the 2019 SH NAV Guarantee, On Line HK is expected to pay to the First Vendor HK$2.25 million in cash for payment of the final part of the consideration for the Second Sale and Purchase Agreement.

Please refer to the announcements of the Company dated 5 May 2017, 3 August 2018, 15 March 2019 and 30 March 2020 for further details in respect of the acquisition and the fulfillment of performance guarantees.

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

Jumbo Channel Limited ("Jumbo Channel"), an indirect wholly-owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement on 9 March 2018 (the "Third Sale and Purchase Agreement") with, among others, T.Y.D. Holding B.V. (the "Second Vendor"), in relation to the acquisition of the remaining 25% equity interest in the issued share capital of OTX Logistics B.V. ("OTX Logistics Holland"). Pursuant to the Third Sale and Purchase Agreement, the Second Vendor undertakes to Jumbo Channel that: (i) in the event that the sum of the audited consolidated net profits after tax of OTX Logistics Holland as stated in the audited accounts of the Company for each of the financial years ended 31 December 2017, 2018 and 2019, respectively, adjusted by any revaluation surplus or deficit of tangible or intangible assets (the "Accumulated Consolidated Net Profit"), shall be less than HK$18.0 million, the Second Vendor shall in aggregate compensate Jumbo Channel HK$3,330,000 after completion of the audited accounts of OTX Logistics Holland for the financial year ended 31 December 2019 (the "2019 Holland Accounts"); (ii) in the event that the Accumulated Consolidated Net Profit shall be less than HK$12.0 million, the Second Vendor shall in aggregate compensate Jumbo Channel HK$6,660,000 after completion of the 2019 Holland Accounts; and (iii) in the event that the Accumulated Consolidated Net Profit shall be less than HK$6.0 million, the Second Vendor shall in aggregate compensate Jumbo Channel HK$10.0 million after completion of the 2019 Holland Accounts. Based on the 2019 Holland Accounts, the Accumulated Consolidated Net Profit was not less than HK$18.0 and the profit guarantee has been fulfilled. Given the fulfillment of the 2019 Holland Accounts, the Second Vendor does not need to compensate Jumbo Channel pursuant to the Third Sale and Purchase Agreement.

Please refer to the announcements of the Company dated 9 March 2018 and 30 March 2020 and the circular of the Company dated 3 April 2018 for further details in respect of the acquisition and the fulfillment of performance guarantees.

Charge on Assets

As at 31 December 2019, the Group had pledged the following assets to secure certain banking facilities representing guarantees on payment to certain airline suppliers of the Group for the Group's cargo space purchase and bank borrowings granted to the Group:

	2019 *HK$'000*	**2018** *HK$'000*
Trade receivables	50	88,845
Financial asset at fair value though profit or loss	952	901
Debt investment at amortised cost	7,580	7,522
Pledged bank deposits	20,720	7,548
	29,302	104,816

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries or associated companies of the Company during the FY2019.

PROSPECTS

At the end of 2019, the Phase-One Deal has eased the trading tension between China and USA which was a positive sign for a more stable development of global trade. However, due to the outbreak of the COVID-19, the global market is facing great challenges. Governments of a number of countries announced that they will or have implemented the border controls or national emergency. This will generate a huge negative effect on the global trade and impact on the business development of the Group in FY2020.

There are great opportunities even during the crisis. Due to the excellent epidemic prevention and control, China is recovering from the COVID-19. The Group believes that China's industrial products and consumer goods will take up more market shares in the near future. During the outbreak of the COVID-19, the Group expects the public will be more used to online shopping to avoid going to public areas, which may promote the penetration rate of e-commerce in some countries. Therefore, the Group supposes that the ecommerce will be blooming up around the world in FY2020, especially cross-border ecommerce exporting from China to the rest of world. There are great opportunities for the companies which own a complete service network in China and an extensive overseas service coverage. Thus, the Group will seize these opportunities to further expand its international express business in the future, through the following ways:

Continue To Improve the International Service Capabilities

Following with the globalization strategy, "going global with the 'Belt and Road' initiative, going global with Chinese and Chinese enterprises, and going global with cross-border e-commerce industry", the Group will continue to improve its service coverage around world in the future, especially the Southeast Asia. According to the recent market research conducted by Google and Temasek, the market of Southeast Asian e-commerce economy is one of the fastest growing markets. Therefore, the Group intends to implement more investment and strategical plan in this area, and develop more business in this year based on the success of Chinese mainland and Taiwan Region.

The Group is planning to further utilize the resources of YTO Express to enhance the international freight capacity. Benefiting from YTO Cargo, which is wholly owned subsidiary of YTO Express, the Group can work with them smoothly and provide the highly-qualified air freight service for customers. Furthermore, the Group intends to strengthen its cooperation with the other subsidiaries of YTO Express around the world and further integrate the parent company's resources to expand overseas business. In future, the Group will complete the internal integration between the overseas subsidiaries of YTO Express and the original subsidiaries of the Group. That enables the Group to expand the service coverage and cut down the cost as well.

Meanwhile, working with the external strategical partners, the Group will continue to improve the end-to-end service in the specific countries and areas based on the previous investment, such as Vietnam and Thailand. According to the globalization plan, the Group also accelerate the construction of logistic routes in countries along the "Belt and Road" routes. The Group is working with the strategic partners, like Cainiao, so as to construct regional logistics gateways and regional international logistic hub in the PRC and other countries. That could enable the Group to obtain the key resources, such as the airline, railway, warehouse etc., and further complements the Group's operational capabilities in the key countries.

Based on the above strategic planning, the Group expects to obtain the highly-qualified services capacities for the customers and enhance market competitiveness to win more market shares of cross-border ecommerce.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PROSPECTS (CONTINUED)

Strengthen Overseas Agency Network and Cooperation with Chinese Overseas Enterprises

In the FY2020, the Group will continue to strengthen the overseas agency network for developing the business. Based on the existing agents in the freight forwarding industry, the Group will introduce the express delivery service for them. That could enrich the service matrix when the agents develop the business for their customers. It is clear that the Group can dig further new value in the existing market. Furthermore, the Group is planning to strengthen the partner relationship with our agents in many aspects, such as by way of joint sales, and introducing ecommerce solution or other specialized logistic solutions. The Group is willing to work with our agents to expand our business and deepen our cooperation in many ways. This will effectively improve all of our profitability in this difficult situation.

Meanwhile, the Group intends to strengthen the cooperation with the Chinese enterprises around the world. According to the Group's globalization strategy, the Chinese and Chinese enterprises are one of the most important target customers for the Group. Leveraging the brand and public relationship of YTO Express in China, the Group will be more efficient to get in touch with the Chinese overseas enterprises and achieve the strategic cooperation. That enables the Group to expand the business in the countries and regions where the Company has never been involved before.

Further Develop the Specialized Service Capacities of Supply-Chain Management

Benefiting from the previous experience on aviation materials, medicines and automobiles, the Group has established capacities of the supply service. In the future years, the Group intends to further develop this specialized service capacities to expand the business into other market segment. Thus, through utilizing the resources of YTO Express, such as warehouses, IT system, and automation equipment, the Group can develop the business into new segments. Meanwhile, the Group intends to establish the e-commerce platform to assist the small and medium enterprises to export products to PRC. This platform will integrate the full supply-chain services and customs clearance services. That enables the Group to obtain the one-stop service for customers who are willing to develop online channel and cross-border ecommerce.

Enhance IT Application Capacity and Promote Digitalization

The Group will continue to focus on the promotion of digitalization, which aims at improving the operational efficiency and management efficiency. The Group is willing to increase the IT system investment to upgrade the current system and build a system which fully meet the requirement for its business development. Therefore, the Group will work with YTO Express and learn from the experience of YTO Express's IT system in the whole process management and digital transformation. Specifically, the Group will unify the data interfaces and build the data process platform to improve the internal and external data analysis. That enable the Group to obtain the ability of big data analysis gradually, so as to achieve the shift to smart and intelligent corporate management and improve the efficiency and cut down the cost effectively as well.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF DIRECTORS

Executive Directors

Mr. Lam Chun Chin, Spencer ("Mr. Lam"), aged 61, is an executive Director, the chief executive officer and the chairman of the Corporate Governance Committee of the Company. He was appointed as a Director on 6 March 2013 and re-designated as an executive Director on 20 December 2013. Mr. Lam is the founder of the Group and he is responsible for overall strategic development, and leading the business development of the Group. Prior to the establishment of the Group in 1995, Mr. Lam had been an assistant route manager from May 1984 to December 1986 and was then promoted as route manager from January 1987 to June 1988, as assistant sales manager from July 1988 to December 1989, as sales manager from January 1990 to December 1990 and as an assistant general manager from January 1991 to December 1997 of Freight Express International Ltd., which was then principally engaged in freight forwarding service. He was mainly responsible for the overall sales strategy as well as sales activities of Freight Express International Ltd. on the east and westbound sector for air freight, sea freight and sea-air traffic worldwide. He has over 36 years of experience in operation and management of freight forwarding and logistics industry. Mr. Lam obtained his diploma in management studies which was jointly awarded by Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) and The Hong Kong Management Association in September 1991. He is also a director of certain subsidiaries of the Company. Mr. Lam is the beneficial owner and the sole director of Golden Strike International Limited, one of the substantial Shareholders.

As of 31 December 2019, Mr. Lam was interested in certain Shares. Please refer to the section headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" for further details.

Mr. Huang Yifeng ("Mr. Huang"), aged 37, was appointed as the vice president of the Company on 3 December 2018 and was promoted as the president of the Company since 28 March 2019. With effect from 21 January 2020, Mr. Huang was appointed as an executive Director and a member of the Corporate Governance Committee of the Company. He is now responsible for the overall strategy planning and international express business development. Mr. Huang graduated from Shanghai University of Finance and Economics with a master degree in statistics. He joined YTO Express Group in January 2016, and held various managerial positions in strategy and merger and acquisition. Prior to joining YTO Express Group, he had been a senior consultant of consulting department in Deloitte Touche Tohmatsu from March 2007 to December 2010, as a senior investment manager of a private equity fund, Shanghai Yonghua Capital Management Co., Ltd. from December 2010 to November 2013, and as a senior investment director of Shanghai Fosun High Technology (Group) Co., Ltd. from November 2013 to January 2016. He is also a director of certain subsidiaries of the Company.

BIOGRAPHIES OF DIRECTORS (CONTINUED)

Non-executive Directors

Mr. Yu Huijiao ("Mr. Yu"), aged 53, was appointed as a non-executive Director, the chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee on 1 December 2017. He obtained a bachelor's degree in information systems application and management from 解放軍信息工程大學 (PLA Information Engineering University*) in December 2013. Mr. Yu founded 圓通速遞有限公司 (Yuantong Express Delivery Co., Ltd.*) (previously known as 上海圓通速遞有限公司 (Shanghai Yuantong Express Delivery Co., Ltd.*)), a subsidiary of YTO Express, in May 2000 and currently serves as the chairman of the board of YTO Express. Mr. Yu has served as the chairman of the board of Yuantong Jiaolong since December 2010.

As of 31 December 2019, Mr. Yu was interested in certain Shares. Please refer to the section headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" for further details.

Mr. Pan Shuimiao ("Mr. Pan"), aged 52, was appointed as a non-executive Director on 21 January 2020. Mr. Pan obtained a master degree in engineering from Zhejiang University in January 1991. From July 2006 to February 2012, Mr. Pan served as president of 浙江萬馬集團有限公司 (Zhejiang Wanma Group Company Limited*) and chairman of 浙江萬馬電纜股份有限公司 (Zhejiang Wanma Cable Company Limited*). From March 2012 to March 2019, Mr. Pan had been acting as the director, executive director and managing director of 上海雲鋒新創股權投資中心 (Shanghai Yunfeng New Venture Capital Investment Center*). Mr. Pan joined YTO Express as a director in October 2016 and was appointed as president of YTO Express since April 2019.

Mr. Li Xianjun ("Mr. Li"), aged 48, was appointed as an executive Director, the president and a member of the Corporate Governance Committee of the Company on 1 December 2017. With effect from 28 March 2019, Mr. Li ceased to be the president of the Company. With effect from 21 January 2020, Mr. Li was re-designated as a non-executive Director and resigned as a member of the Corporate Governance Committee of the Company. Mr. Li obtained a bachelor's degree in economy management from 華東理工商貿學院 (East China Polytechnic Institute of Commerce*) in July 2007. Mr. Li joined YTO Express Group in March 2002 and held various managerial positions in different branch offices. Mr. Li currently also serves as the vice president of YTO Express.

Mr. Lin Kai ("Mr. Lin"), aged 44, was appointed as a non-executive Director and a member of the Audit Committee on 1 December 2017. He obtained a master's degree in business administration from De La Salle University in December 2003. Mr. Lin joined YTO Express Group in August 2016 and currently serves as the vice president and chief financial officer of YTO Express. Prior to joining YTO Express, Mr. Lin was a partner of 寧波航捷投資合夥企業（有限合夥）(Ningbo Hangjie Investment Partnership (Limited Partnership)*) from January 2016 to August 2016. Between April 2014 and January 2016, Mr. Lin served as the vice president of finance of 上海韻達貨運有限公司 (Shanghai Yunda Freight Co., Ltd*).

BIOGRAPHIES OF DIRECTORS (CONTINUED)

Independent non-executive Directors

Mr. Li Donghui ("Mr. Li"), aged 49, was appointed as an independent non-executive Director and a member of the Audit Committee, the Nomination Committee and the Corporate Governance Committee on 1 December 2017. He obtained a bachelor's degree in philosophy from Renmin University of China in July 1991, a master's degree in management engineering from 北京機械工業學院 (Beijing Institute of Machinery*) in June 1997, and a master's degree in business administration from Kelley School of Business of Indiana University in March 2010. Since Mr. Li has joined the group companies of Geely Automobile Holdings Limited ("Geely"), a company listed on the Main Board of the Stock Exchange (stock code: 0175), in July 2016, he has worked for various positions and currently serves as an executive director and vice chairman of Geely. Prior to joining Geely, Mr. Li served as the vice president and chief financial officer of Guangxi Liugong Machinery Co., Ltd, a company listed on the Shenzhen Stock Exchange (stock code: 000528), between December 2009 and March 2011. Between May 2014 and June 2016, Mr. Li served various positions including as a director and the vice chairman of 北京東方園林環境股份有限公司 (Beijing Orient Landscape & Environment Co., Ltd.*) (previously known as 北京東方園林股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002310). He served as a director of 浙江錢江摩托股份有限公司 (Zhejiang Qianjiang Motorcycle Co. Ltd.*), a company listed on the Shenzhen Stock Exchange (stock code: 000913), until April 2018. Mr. Li is currently an independent director of 中青旅控股股份有限公司 (China CYTS Holding Co., Ltd.*), a company listed on the Shanghai Stock Exchange (stock code: 600138).

Mr. Xu Junmin ("Mr. Xu"), aged 55, was appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Nomination Committee and the Corporate Governance Committee on 1 December 2017. He obtained a bachelor's degree in electromagnetic engineering from 上海科學技術大學 (Shanghai University of Science and Technology*) in July 1987 and a master's degree in business administration from Arizona State University in May 2009. Mr. Xu had served as an independent director of 上海利策科技股份有限公司 (Shanghai Richtech Engineering Co., Ltd.*), a company listed on the National Equities Exchange and Quotations (stock code: 832547), from July 2016 to December 2018. Mr. Xu held various positions in the group companies of 上海吉祥航空股份有限公司 (Juneyao Airlines Co., Ltd.*) (previously known as 上海吉祥航空有限公司) ("Juneyao Airlines"), a company listed on the Shanghai Stock Exchange (stock code: 603885), including a director of 九元航空有限公司 (9 Air Company Limited*) and an executive director and the general manager of 上海吉寧文化傳媒有限公司 (Jining Culture Media Co., Ltd*). He has been serving as the board secretary and a director of Juneyao Airlines since November 2010 and July 2017 respectively. In November 2019, Mr. Xu ceased to be a director of Juneyao Airlines and was appointed as the vice president of Juneyao Airlines. He has also been serving as an independent director of 上海二三四五網絡控股集團股份有限公司 (Shanghai 2345 Network Holding Group Co. Ltd.*), a company listed on the Shenzhen Stock Exchange (stock code: 002195) since May 2016.

Mr. Chung Kwok Mo John ("Mr. Chung"), aged 51, was appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Corporate Governance Committee on 1 December 2017. He obtained a bachelor's degree in economics from Macquarie University in April 1992 and is a member of CPA Australia and Hong Kong Institute of Certified Public Accountants, with over 20 years of experience in auditing, financial management and corporate finance. Mr. Chung was an auditor in Arthur Andersen (an international accounting firm) from 1992 to 1999. From 2000, Mr. Chung held several senior management positions, including chief financial officer, executive director and independent non-executive director, in a number of listed companies in Hong Kong. Mr. Chung is presently a vice president of Yongsheng Advanced Materials Company Limited, a company listed on the Stock Exchange (stock code: 3608). Mr. Chung is also currently an independent non-executive director of the following companies listed on the Stock Exchange: (i) BYD Electronic (International) Company Limited (stock code: 285) since June 2013; (ii) Zhengye International Holdings Company Limited (stock code: 3363) since March 2011; (iii) B & S International Holdings Ltd. (stock code: 1705, a company listed on the Stock Exchange on 14 March 2018) since February 2018; and (iv) Tokyo Chuo Auction Holdings Limited (stock code: 1939, a company listed on the Stock Exchange on 11 October 2018) since September 2018.

BIOGRAPHIES OF SENIOR MANAGEMENT

Ms. Wong Pui Wah ("Ms. Wong"), aged 45, is the chief financial officer of the Company and the Company Secretary. She is responsible for overall financial and banking management and overall human resources and administrative management of the Group. Ms. Wong joined the Group in March 2006 and worked as an accounting manager. She became the financial controller of the Group since August 2006. She was an executive Director on 20 December 2013 to 1 December 2017. Prior to joining the Group, Ms. Wong had acquired auditing and accounting experiences by working in various accountancy firms which include Frank Ho & Co., Y.L. Ngan & Company, C.W. Leung & Co. and RSM Nelson Wheeler (currently known as RSM Hong Kong) from June 1998 to March 2006. She has over 20 years of experience in auditing, accounting and financial management. Ms. Wong graduated from Lingnan College (currently known as Lingnan University) with a bachelor's degree in business administration in November 1998. She also obtained a master's degree in professional accounting from The Hong Kong Polytechnic University in November 2010. She is a non-practising member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Ms. Wong is also a director of certain subsidiaries of the Company.

Mr. Hartmut Ludwig Haenisch ("Mr. Haenisch"), aged 55, was appointed as the managing director, USA and Southeast Asia, freight forwarding industry and trade lane of the Company. Mr. Haenisch is responsible for overall sales and leading the business development of the Group and communication with key customers and suppliers. He joined the Group in January 1998 and worked as a director of international sales from January 1998 to February 1998. Mr. Haenisch has been the managing director of the Group since March 1998 and was an executive Director on 20 December 2013 to 1 December 2017. Prior to joining the Group, he had been a marketing executive from May 1994 to July 1995 and was later promoted as sales manager in charge of European traffic from August 1995 to December 1997 of Freight Express International Ltd., which was then principally engaged in freight forwarding service. Mr. Haenisch was mainly responsible for the sales activities of Freight Express International Ltd. He has over 25 years of experience in sales and management of freight forwarding and logistics industry. Mr. Haenisch obtained a master's degree in business administration from University of Osnabrück of Germany in March 1992. He is also a director of certain subsidiaries of the Company.

Mr. Dennis Ronald de Wit ("Mr. D.R. de Wit"), aged 61, the managing director, the Netherlands. He is responsible for overall sales, leading the business development of the Group and communication with key customers and suppliers in the Netherlands, central Europe and the USA. Mr. D.R. de Wit joined the Group in December 2011 as a result of the Group's acquisition of OTX Logistics B.V. and was an executive Director on 20 December 2013 to 1 December 2017. Prior to joining the Group, he had been a director from March 1984 to October 1986 of Allfreight International B.V., which was then principally engaged in freight forwarding services, and was mainly responsible for the overall management. Mr. D.R. de Wit managed Internationaal Expeditiebedrijf Ebrex Air B.V., which was then principally engaged in freight forwarding services, through his management company D.R. de Wit Beheer B.V. from December 1987 to June 1993. He has been a director of OTX Logistics B.V., an indirect non-wholly owned subsidiary of the Company, since May 1999. Mr. D.R. de Wit is also a director of certain subsidiaries of the Company.

Mr. Lau Wai Man ("Mr. Lau"), aged 48, is the air freight director of the Group. He has been with the Group since June 1998. Mr. Lau has been the Group's operations manager from June 1998 to December 2011, where he was responsible for operational matters, and he was promoted to the air freight director of the Group at the end of 2011. He obtained a certificate in air freight forwarding from the Vocational Training Council of Hong Kong in July 1992. He then completed a traineeship as an airfreight operations clerk in September 1993. Mr. Lau also obtained a professional diploma in inventory and logistics management from The Hong Kong Management Association in September 2002, a continuing education diploma in management studies from City University of Hong Kong in July 2010 and a bachelor's degree in logistics from University of Huddersfield of the United Kingdom in November 2012. He is a chartered member of The Chartered Institute of Logistics and Transport since June 2013.

* *For identification purposes only*

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and the audited consolidated financial statements for the FY2019.

PRINCIPAL ACTIVITIES

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

EQUITY-LINKED AGREEMENTS

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

RESULTS AND DIVIDENDS

The results of the Group for the FY2019 are set out in the consolidated statement of profit or loss on page 50.

The Board recommended the payment of a final dividend of HK1.0 cent (2018: HK3.8 cents) per ordinary Share, absorbing a total amount of about HK$4,168,000 (2018: HK$15,742,000), in respect of the FY2019, which is subject to the approval of the Shareholders at the AGM to be held on Wednesday, 10 June 2020. The proposed final dividend is expected to be paid on Friday, 10 July 2020 to all Shareholders whose names to be appeared on the register of members of the Company on Friday, 19 June 2020.

DIVIDEND POLICY

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

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

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 146. This summary does not form part of the audited financial statements.

DIRECTORS' REPORT (CONTINUED)

BUSINESS REVIEW

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

Environment protection

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

Relationships with key stakeholders

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

Employees

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

Customers

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

Vendors

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

Shareholders

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

BUSINESS REVIEW (CONTINUED)

Relationships with key stakeholders (Continued)

Compliance with laws and regulations

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the FY2019.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The decrease in the fair value of the investment properties which has been charged to the consolidated statement of profit or loss and other comprehensive income for the FY2019 amounted to HK$112,000.

The increase in the fair value of the property, plant and equipment which has been charged to the consolidated statement of profit or loss and other comprehensive income for the FY2019 amounted to HK$605,000.

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

SHARE CAPITAL

Details of share capital are set out in note 40 to the consolidated financial statements.

DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the FY2019.

HUMAN RESOURCES

As at 31 December 2019, the Group employed about 1,070 employees (as at 31 December 2018: about 1,130 employees). Remuneration packages are generally structured to market terms, individual qualifications and experience. The Company has also adopted a share option scheme and a share award plan for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, who contribute to the success of the Group's operations. Training activities have also been conducted to improve the performance of sales and marketing activities and customer services.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the FY2019.

RESERVES

Details of the movements in the reserves of the Group and the Company during the FY2019 are set out in the consolidated statement of changes in equity and note 49 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's distributable reserve as at 31 December 2019 is set out in the consolidated statement of changes in equity.

DIRECTORS

The Directors during the FY2019 and up to the date of this report were:

Executive Directors:

Mr. Lam Chun Chin, Spencer, Chief Executive Officer
Mr. Huang Yifeng *(Appointed on 21 January 2020)*

Non-executive Directors:

Mr. Yu Huijiao, Chairman
Mr. Pan Shuimiao *(Appointed on 21 January 2020)*
Mr. Li Xianjun *(Re-designated from an executive Director to a non-executive Director on 21 January 2020)*
Mr. Su Xiufeng *(Resigned on 21 January 2020)*
Mr. Zhu Rui *(Resigned on 21 January 2020)*
Mr. Lin Kai

Independent non-executive Directors:

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

In accordance with the Articles, Mr. Huang Yifeng, Mr. Pan Shuimiao, Mr. Lin Kai, Mr. Li Donghui and Mr. Xu Junmin will retire at the forthcoming AGM and all of them, being eligible, offer themselves for re-election at the forthcoming AGM.

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

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

(A) Long position in ordinary Shares

Name of Director	Capacity/nature of interest	Number of Shares involved	Approximate percentage* of shareholding
Mr. Lam Chun Chin, Spencer	Interest of a controlled corporation *(Note 1)*	39,722,000	9.53%
Mr. Yu Huijiao	Interest of controlled corporations *(Note 2)*	268,229,408	64.36%

Notes:

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

2. These Shares are held by YTO Global Holdings Limited, a company wholly owned by Yuan Jun. Yuan Jun is a company wholly owned by YTO Express, which is in turn owned as to 50.79% by Yuantong Jiaolong. Yuantong Jiaolong is a company owned as to 51% by Mr. Yu Huijiao and 49% by his spouse, Ms. Zhang Xiaojuan. By virtue of the SFO, Mr. Yu Huijiao and Ms. Zhang Xiaojuan are deemed to be interested in the Shares held by YTO Global Holdings Limited.

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

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

Name of Director	Name of associated corporation	Capacity/nature of interest	Number of shares involved/amount of registered capital	Approximate percentage* of shareholding
Mr. Yu Huijiao	Yuantong Jiaolong	Beneficial owner	RMB260,100,000	51.00%
		Interest of spouse	RMB249,900,000	49.00%
	YTO Express	Interest of controlled corporations	1,579,971,414	55.58%
		Beneficial owner	133,450,083	4.69%
		Interest of spouse	98,127,852	3.45%
	Yuan Jun	Interest of controlled corporations	RMB1,800,000,000	100.00%
	YTO Global Holdings Limited	Interest of controlled corporations	1,600,000,000	100.00%

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

* The percentage represents the number of shares involved divided by the number of the Company's/the Company's associated corporations' issued shares or registered capital as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company had any interests and/or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" and "Share Award Plan" below, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the FY2019.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the sections headed "Connected Transaction" and "Continuing Connected Transactions" below and in note 48 to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the FY2019 or at any time during the FY2019.

PERMITTED INDEMNITY PROVISION

Under the Articles, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors throughout the FY2019 and as at the date of approval of this Directors' Report, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he/she is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the FY2019, no claims were made against the Directors.

DIRECTORS' SERVICE CONTRACTS

Mr. Huang Yifeng was appointed as an executive Director for an initial fixed term of one year commencing from 21 January 2020 renewable automatically for successive terms of one year each commencing from the day immediately after the expiry of the then current term of appointment, until terminated as contemplated pursuant to the termination provisions therein, or by not less than three months' written notice served by either party expiring at the end of the initial term of his appointment or any time thereafter.

Mr. Lin Kai (non-executive Director) and each of Mr. Li Donghui and Mr. Xu Junmin (each an independent non-executive Director), have been appointed for a term of one year with effect from 1 December 2017, which shall be automatically renewable for successive terms of one year each commencing from the next day after the expiry of the current term of appointment unless terminated by giving not less than three months' written notice by either party.

Mr. Pan Shuimiao has been appointed as a non-executive Director by the Company for an initial term of one year commencing from 21 January 2020, which shall be renewed and extended automatically for successive terms of one year each upon expiry of the then current term, until terminated by not less than three month's written notice served by either party expiring at the end of the initial term or thereafter.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

During the FY2019, no share options have been outstanding, granted, exercised, lapsed or cancelled by the Company under the Share Option Scheme.

SHARE AWARD PLAN

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

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

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

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

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

During the FY2019, no shares of the Company were purchased by the trustee of the Share Award Plan pursuant to the terms of the trust deed of the Share Award Plan (2018: 2,200,000 Shares at a total consideration (including related transaction costs) of HK$6,563,000).

SHARE AWARD PLAN (CONTINUED)

Details of movements of the share awards granted under the Share Award Plan for the FY2019 are as follows:

			Number of share awards					
Name or category of selected participants	**Date of award**	**Vesting dates**	**Outstanding as at 1 January 2019**	**Awarded during the year**	**Vested during the year**	**Lapsed during the year**	**Cancelled during the year**	**Outstanding as at 31 December 2019**
Connected Selected Participants								
Ms. Wong Pui Wah	31 August 2018	30% on 2 September 2019; 30% on 1 September 2020; and 40% on 1 September 2021	800,000	–	(240,000)	–	–	560,000
Ms. Cheung Ching Wa, Camy	31 August 2018	30% on 2 September 2019; 30% on 1 September 2020; and 40% on 1 September 2021	600,000	–	(180,000)	(420,000)	–	–
Mr. Chen Jinbo	31 August 2018	30% on 2 September 2019; 30% on 1 September 2020; and 40% on 1 September 2021	500,000	–	(150,000)	–	–	350,000
Sub-total			**1,900,000**	**–**	**(570,000)**	**(420,000)**	**–**	**910,000**
Name of Director								
Mr. Huang Yifeng *(Note (1))*	31 August 2018	30% on 2 September 2019; 30% on 1 September 2020; and 40% on 1 September 2021	1,000,000	–	(300,000)	–	–	700,000
Independent Selected Participants	31 August 2018	30% on 2 September 2019; 30% on 1 September 2020; and 40% on 1 September 2021	6,500,000	–	(1,620,000)	(1,170,000)	–	3,710,000
Sub-total			**7,500,000**	**–**	**(1,920,000)**	**(1,170,000)**	**–**	**4,410,000**
Total			**9,400,000**	**–**	**(2,490,000)**	**(1,590,000)**	**–**	**5,320,000**

Notes:

(1) Mr. Huang Yifeng was appointed as Director on 21 January 2020, other than that, none of the above selected participants are Directors.

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

RETIREMENT SCHEMES

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

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

As at 31 December 2019, so far as is known to the Directors, the following corporations or persons (other than a Director or the chief executive of the Company) had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in ordinary Shares

Name of shareholder	Capacity/nature of interest	Number of Shares involved	Percentage* of the Company's issued share capital
Lam Investco *(Note 1)*	Beneficial owner	39,722,000	9.53%
Ms. Li Wai Fun *(Note 1)*	Interest of spouse	39,722,000	9.53%
YTO Global Holdings Limited *(Note 2)*	Beneficial owner	268,229,408	64.36%
YTO Express *(Note 2)*	Interest of controlled corporations	268,229,408	64.36%
Yuantong Jiaolong *(Note 2)*	Interest of controlled corporations	268,229,408	64.36%
Ms. Zhang Xiaojuan *(Note 2)*	Interest of controlled corporations	268,229,408	64.36%

Notes:

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

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

* The percentage represents the number of Shares involved divided by the number of the issued Shares as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, other than the Directors and the chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

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

CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions

During the FY2019, the Group has conducted the following continuing connected transactions which were required to be disclosed pursuant to Appendix 16 to the Listing Rules:

Master Service Agreement with YTO Express

On 24 April 2019, the Company entered into an agreement (the "Master Service Agreement") with YTO Express, pursuant to which (i) the Company have appointed YTO Express Members as the Group's agents for the rest of the world; and (ii) YTO Express have appointed the Group as YTO Express Members' agents for the rest of the world, for the provision of international express and parcel services and/or air and ocean freight services for the term commencing as of 1 January 2019 to 31 December 2021 unless terminated earlier by 30 days' written notice by either party.

Throughout the year ended 31 December 2019, YTO Express is a company owned as to over 50% by Yuantong Jiaolong, which in turn is a company owned as to 51% by Mr. Yu Huijiao (a non-executive Director and a controlling Shareholder) and 49% by his spouse. Accordingly, YTO Express is a connected person of the Company under Rule 14A.07 of the Listing Rules.

As disclosed in the Company's announcement dated 24 April 2019, the original annual caps under the Master Service Agreement of (i) international express and parcel services and air and ocean freight services fees to be paid by the Group to YTO Express Members for each of the three years ending 31 December 2021 are HK$42.0 million, HK$49.6 million and HK$58.5 million, respectively; and (ii) international express and parcel services and air and ocean freight services income to be received by the Group from YTO Express Members for each of the three years ending 31 December 2021 are HK$8.7 million, HK$10.3 million and HK$12.1 million, respectively. As disclosed in the Company's announcement dated 23 August 2019 and circular dated 29 October 2019, the Company revised the annual caps of (i) international express and parcel services and air and ocean freight services fees to be paid by the Group to YTO Express Members to HK$88.8 million, HK$257.5 million and HK$386.3 million, for each of the three years ending 31 December 2021, respectively; and (ii) international express and parcel services and air and ocean freight services income to be received by the Group from YTO Express Members to HK$114.3 million, HK$342.9 million and HK$481.0 million, for each of the three years ending 31 December 2021, respectively.

For the FY2019, (i) international express and parcel services and air and/or ocean freight services fees paid by the Group to YTO Express Members was approximately HK$41.7 million; and (ii) international express and parcel services and air and/or ocean freight services income received by the Group from YTO Express Members was approximately HK$5.7 million.

Please refer to the Company's announcements dated 24 April 2019 and 23 August 2019 and the circular dated 29 October 2019 for further details of the Master Service Agreement.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Master Charter Agreement with YTO Cargo

On 23 August 2019, the Company (for itself and on behalf of other members of the Group) entered into an agreement (the "Master Charter Agreement") with YTO Cargo, pursuant to which YTO Cargo will provide air freight chartering services to the Group to and from countries and regions around the world for the transportation of air cargoes for a term commencing from the 27 November 2019 (i.e. the date of approval by the independent Shareholders of, among others, the transactions contemplated under the Master Charter Agreement at an extraordinary general meeting of the Company held on 27 November 2019) to 31 December 2021 unless terminated earlier by 60 days' written notice by either party.

Throughout the year ended 31 December 2019, YTO Express is a company owned as to over 50% by Yuantong Jiaolong, which in turn is a company owned as to 51% by Mr. Yu Huijiao (a non-executive Director and a controlling Shareholder) and 49% by his spouse. Accordingly, YTO Express is a connected person of the Company under Rule 14A.07 of the Listing Rules. YTO Cargo is a wholly owned subsidiary of YTO Express, it is therefore a connected person of the Company under Rule 14A.07 of the Listing Rules.

The annual caps under the Master Charter Agreement of (i) the charter fee and other charter related fees (including but not limited to fuel surcharge and deicing fee) for each of the countries and regions around the world (the "Charter and Related Fees"), and (ii) all expenses related to cargo terminal operations (the "Cargo Terminal Expenses") at departure and destination airport (which may be payable by YTO Cargo to the relevant cargo terminal on behalf of the Group) and handling fees in respect of the Cargo Terminal Expenses to be paid and/or reimbursed by the Group to YTO Cargo are HK$15.0 million, HK$428.9 million and HK$643.4 million for each of the three years ending 31 December 2021, respectively.

For the FY2019, there was no Charter and Related Fees, Cargo Terminal Expenses and handling fees in respect of the Cargo Terminal Expenses paid and/or reimbursed by the Group to YTO Cargo.

Please refer to the Company's announcement dated 23 August 2019 and circular dated 29 October 2019 for further details of the Master Charter Agreement.

OT Thailand Contractual Arrangements and OT Vietnam Contractual Arrangements

During the FY2019, the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements (as defined below) constitute non-exempted continuing connected transactions of the Company under the Listing Rules.

OT Thailand Contractual Arrangements

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

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

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

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

OT Thailand Contractual Arrangements and OT Vietnam Contractual Arrangements (Continued)

OT Thailand Contractual Arrangements (Continued)

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

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

OT Thailand contributed to about 1.5% of the Group's total revenue for the FY2019 (FY2018: 1.4%). Through the OT Thailand Contractual Arrangements, the financial results of OT Thailand were consolidated into the Group's financial statements as if it was the Company's subsidiary and, as a result, the Group bears 82.5% of the economic risks and losses of OT Thailand.

No dividend nor distribution was made by OT Thailand to its shareholders for the FY2019.

OT Vietnam Contractual Arrangements

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

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

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

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

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

OT Vietnam contributed to about 2.7% of the Group's total revenue for the FY2019 (FY2018: 1.9%). Through the operation of the OT Vietnam Contractual Arrangement, the financial results of OT Vietnam were consolidated into the Group's financial statements as if it was the Company's indirect wholly-owned subsidiary and, as a result, the Group bears 100% of the economic risks and losses of OT Vietnam.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

OT Thailand Contractual Arrangements and OT Vietnam Contractual Arrangements (Continued)

OT Vietnam Contractual Arrangements (Continued)

No dividend nor distribution was made by OT Vietnam to its shareholders for the FY2019.

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

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

Confirmation of auditor of the Company

Deloitte Touche Tohmatsu, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu has issued its unqualified letter containing their findings and conclusions in respect of the Master Service Agreement, the Master Charter Agreement, the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements in respect of the FY2019 in accordance with Rule 14A.56 of the Listing Rules, with an emphasis of matter paragraph in relation to the fact that the Company is not required to establish nor announced an annual cap in respect of the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements for the FY2019. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the Master Service Agreement and the Master Charter Agreement in respect of the FY2019 and confirmed that these transactions have been entered into:

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

(2) on normal commercial terms or better; and

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

Furthermore, in relation to the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements in respect of the FY2019, the independent non-executive Directors have confirmed that the OT Thailand Contractual Arrangements and the OT Vietnam Contractual Arrangements have remained unchanged and consistent with the disclosure as set out in the Prospectus; and both of the said arrangements are fair and reasonable so far as the Group is concerned and in the interests of the Shareholders as a whole.

DIRECTORS' REPORT (CONTINUED)

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Prospectus and the transactions as disclosed in note 48 to the consolidated financial statements, no controlling Shareholder or any of its subsidiaries has any contract of significance with the Company or its subsidiaries during the FY2019.

MANAGEMENT CONTRACTS

Save as disclosed in the Prospectus and the sections headed "Connected Transaction" and "Continuing Connected Transactions', no contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the FY2019.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During 1 January 2019 and up to the date of this report, the following Director was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group (the "Competing Business"), as defined in the Listing Rules, details of which are set out below:

Name of Director	Mr. Yu Huijiao, non-executive Director of the Company, who is also a substantial shareholder of YTO Express
Nature and scope of the Competing Business	YTO Express Group is principally engaged in the warehousing and distribution of goods as a leader in the express and courier service market in the PRC
Size of the Competing Business	YTO Express is a company listed on the Shanghai Stock Exchange (stock code: 600233), with market capitalization amounted to RMB36.0 billion as at 31 December 2019
Management of the Competing Business	The positions held by the Directors in YTO Express are as follows: Mr. Yu Huijiao, *chairman of the board* Mr. Li Xianjun, *vice president* Mr. Pan Shuimiao, *director and president* Mr. Su Xiufeng, *vice chairman of Yuantong Jiaolong and chairman of YTO Cargo* Mr. Zhu Rui, *special assistant to the chairman* Mr. Lin Kai, *vice president and chief financial officer*

For the FY2019, since YTO Express Group's main focus was warehousing and distribution of goods through express and courier service in the PRC and apart from intra-group freight forwarding services among YTO Express Group members, YTO Express Group did not carry out any freight forwarding services to and/or business with external parties, the Directors considered that the operations of YTO Express Group did not affect the Group's business.

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Shares during the FY2019.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2019. As at the date of this annual report, the Group was not involved in any current material legal proceeding, nor was the Group aware of any pending or potential material legal proceedings involving the Group. If the Group was involved in such material legal proceedings, the Group would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

DIRECTORS' REPORT (CONTINUED)

USE OF PROCEEDS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the FY2019, less than 30% of the Group's revenue and cost of sales were attributable to the Group's five largest customers and suppliers, respectively.

REMUNERATION POLICY

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 5 June 2020 to Wednesday, 10 June 2020 (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming AGM. In order to be qualified for attending and voting at the forthcoming AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Thursday, 4 June 2020.

Conditional on the passing of the resolution approving the declaration of the proposed final dividend at the forthcoming AGM, the register of members of the Company will also be closed from Wednesday, 17 June 2020 to Friday, 19 June 2020 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the FY2019. In order to be qualified for the proposed final dividend (subject to the approval of the Shareholders at the forthcoming AGM), unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. (Hong Kong time) on Tuesday, 16 June 2020.

CHARITABLE CONTRIBUTIONS

During the FY2019, the Group made charitable contributions in an aggregate amount of about HK$118,000 (FY2018: about HK$136,000).

EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2019, the Group acquired the entire issued shares of YTO Courier (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability. The consideration for such acquisition was HK$6,940,000 and was satisfied in cash. Completion for such acquisition took place on 30 March 2020. Please refer to the Company's announcement dated 30 March 2020 for further details.

The global outbreak of the COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by the governments of various countries in early 2020 have had a negative impact on the operations of the Group, as it worsens the trading environment globally which affects logistics business of the Group. The Group has assessed the impact of the outbreak of the COVID-19 on its operation and taken the necessary measures to limit and minimize the impact to a lower level. The Group will continue to monitor the global situation and its effect on the trading environment as well as the logistics industry and make timely responses and measures in the future.

AUDITOR

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

On behalf of the Board

Mr. Yu Huijiao
Chairman

Hong Kong, 31 March 2020

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company has applied the principles as set out in the CG Code contained in Appendix 14 to the Listing Rules on the Stock Exchange during the FY2019. The Board considers that during the FY2019, the Company has complied with the code provisions set out in the CG Code. Key corporate governance principles and practices of the Company are summarized below.

A. THE BOARD

A1. Responsibilities and Delegation

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

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

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

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

A2. Board Composition

The composition of the Board for the FY2019 and up to the date of this report is as follows:

Executive Directors:

Mr. Lam Chun Chin, Spencer	*(Chief Executive Officer and Chairman of the Corporate Governance Committee)*
Mr. Huang Yifeng *(Note 1)*	*(President and Member of the Corporate Governance Committee)*

Non-executive Directors:

Mr. Yu Huijiao	*(Chairman of the Board, Chairman of the Nomination Committee and Member of the Remuneration Committee)*
Mr. Pan Shuimiao *(Note 2)*	
Mr. Li Xianjun *(Note 3)*	*(Former President and Member of the Corporate Governance Committee)*
Mr. Su Xiufeng *(Note 4)*	
Mr. Zhu Rui *(Note 5)*	
Mr. Lin Kai	*(Member of the Audit Committee)*

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

A. THE BOARD (CONTINUED)

A2. Board Composition (Continued)

Independent non-executive Directors:

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

Note 1: With effect from 28 March 2019. Mr. Huang Yifeng was appointed as President of the Company. With effect from 21 January 2020, Mr. Huang Yifeng was appointed as an executive Director and a member of the Corporate Governance Committee of the Company.

Note 2: With effect from 21 January 2020, Mr. Pan Shuimiao was appointed as a non-executive Director.

Note 3: With effect from 28 March 2019, Mr. Li Xianjun ceased to be the President of the Company. With effect from 21 January 2020, Mr. Li Xianjun was re-designated as a non-executive Director and resigned as a member of the Corporate Governance Committee of the Company.

Note 4: With effect from 21 January 2020, Mr. Su Xiufeng resigned as a non-executive Director.

Note 5: With effect from 21 January 2020, Mr. Zhu Rui resigned as a non-executive Director.

Throughout the FY2019, the Board has met the requirements of the Listing Rules 3.10 and 3.10A of having a minimum of three independent non-executive directors (representing at least one-third of the Board) with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise.

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

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

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

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

A. THE BOARD (CONTINUED)

A3. Chairman and Chief Executive

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

A4. Appointment and Re-election of Directors

All Directors are appointed for a specific term. Mr. Lam Chun Chin, Spencer (an executive Director) is engaged on a service contract for a term of three years, and will continue thereafter unless terminated by not less than three months' notice in writing served by either the Company or himself. Mr. Huang Yifeng has been appointed as an executive Director for an initial fixed term of one year commencing from 21 January 2020 renewable automatically for successive terms of one year each commencing from the day immediately after the expiry of the then current term of appointment, until terminated as contemplated pursuant to the termination provisions therein, or by not less than three months' written notice served by either party expiring at the end of the initial term of his appointment or any time thereafter.

Mr. Li Xianjun (an executive Director) was engaged on a service contract for a term of one year and shall be automatically renewable for successive terms of one year each commencing from the next day after the expiry of the current term unless terminated by not less than three months' notice in writing served by either the Company or himself. Mr. Li Xianjun has been re-designated as a non-executive Director by the Company for an initial term of one year commencing from 21 January 2020, which shall be renewed and extended automatically for successive terms of one year each upon expiry of the then current term, until terminated by not less than three month's written notice served by either the Company or Mr. Li Xianjun expiring at the end of the initial term or thereafter.

Mr. Pan Shuimiao has been appointed as a non-executive Director by the Company for an initial term of one year commencing from 21 January 2020, which shall be renewed and extended automatically for successive terms of one year each upon expiry of the then current term, until terminated by not less than three month's written notice served by either the Company or Mr. Pan Shuimiao expiring at the end of the initial term or thereafter.

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

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

At the forthcoming AGM, Mr. Huang Yifeng, Mr. Pan Shuimiao, Mr. Lin Kai, Mr. Li Donghui and Mr. Xu Junmin shall retire by rotation pursuant to the Articles. All of the above retiring Directors, being eligible, will offer themselves for re-election at the AGM. The Board and the Nomination Committee recommended their re-appointment. The circular of the Company, sent together with this report, contains detailed information of the said Directors as required by the Listing Rules.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

A. THE BOARD (CONTINUED)

A5. Training and Continuing Development for Directors

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

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

The Directors are required to submit to the Company details of the training they received in each financial year for the Company's maintenance of proper training records of the Directors. During the FY2019, all the Directors were provided with reading materials or regulatory update on corporate governance matters and responsibilities of the Directors for their reference and perusal. Besides, Mr. Lam Chun Chin, Spencer, Mr. Li Xianjun, Mr. Yu Huijiao, Mr. Su Xiufeng, Mr. Zhu Rui, Mr. Lin Kai, Mr. Li Donghui, Mr. Xu Junmin and Mr. Chung Kwok Mo John attended other seminars and training sessions arranged by other professional firms/institutions.

A6. Directors' Attendance Records at Meetings

The attendance records of each Director at the Board and Board committee meetings and the general meetings of the Company held during the FY2019 are set out below:

	Attendance/Number of Meetings						
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Corporate Governance Committee**	**Annual General Meeting**	**Extraordinary General Meeting**
Executive Directors:							
Mr. Li Xianjun	6/6	N/A	N/A	N/A	1/1	1/1	1/2
Mr. Lam Chun Chin, Spencer	6/6	N/A	N/A	N/A	1/1	1/1	2/2
Non-executive Directors:							
Mr. Yu Huijiao	6/6	N/A	1/1	1/1	N/A	1/1	1/2
Mr. Su Xiufeng	4/6	N/A	N/A	N/A	N/A	0/1	1/2
Mr. Zhu Rui	5/6	N/A	N/A	N/A	N/A	1/1	1/2
Mr. Lin Kai	6/6	3/3	N/A	N/A	N/A	1/1	2/2
Independent non-executive Directors:							
Mr. Li Donghui	4/6	3/3	N/A	1/1	1/1	0/1	2/2
Mr. Xu Junmin	6/6	N/A	1/1	1/1	1/1	1/1	2/2
Mr. Chung Kwok Mo John	6/6	3/3	1/1	N/A	1/1	1/1	2/2

In addition, the Chairman of the Board held one meeting with the non-executive Directors and the independent non-executive Directors without the presence of executive Directors during the FY2019.

A7. Model Code for Securities Transactions

The Company has devised its own code of conduct regarding Directors' and employees' dealings in the Company's securities (the "Securities Dealing Code") on terms no less exacting than the required standard as set out in the Model Code. Each Director has been given a copy of the Securities Dealing Code. Specific enquiry has been made of all Directors and they have confirmed their compliance with the Securities Dealing Code throughout the FY2019. In addition, no incident of non-compliance of the Securities Dealing Code by the employees was noted by the Company.

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

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES

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

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

B1. Executive Committee

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

B2. Remuneration Committee

The members of the Remuneration Committee during the FY2019 were as follows:

Non-executive Director:

Mr. Yu Huijiao

Independent non-executive Directors:

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

Throughout the FY2019, the Company has met the Listing Rule requirements of having the majority of the Remuneration Committee members being independent non-executive Directors as well as having the Committee chaired by an independent non-executive Director.

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

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES (CONTINUED)

B2. Remuneration Committee (Continued)

During the FY2019, the Remuneration Committee has held one meeting (the attendance records of each Committee member are set out in section A6 above). The Remuneration Committee performed the following major works during the year:

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

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

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the FY2019 is set out below:

Remuneration band (HK$)	Number of individuals
2,500,000–2,999,999	2
2,000,000–2,499,999	2
1,500,000–1,999,999	1
1,000,000–1,499,999	1

Details of the remuneration of each Director for the FY2019 are set out in note 12 to the consolidated financial statements contained in this report.

B3. Nomination Committee

The members of the Nomination Committee during the FY2019 were as follows:

Non-executive Director:

Mr. Yu Huijiao *(Chairman)*

Independent non-executive Directors:

Mr. Li Donghui
Mr. Xu Junmin

Throughout the FY2019, the Company has met the code provision A.5.1 of the CG Code of having a majority of the Committee members being independent non-executive Directors and having the Committee chaired by the Chairman of the Board.

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

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

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES (CONTINUED)

B3. Nomination Committee (Continued)

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

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

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

During the FY2019, the Nomination Committee has held one meeting (the attendance records of each Committee member are set out in section A6 above). The Nomination Committee performed the following major works during the year:

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

– Consideration of and recommendation to the Board on the re-election of the retiring Directors at the Company's AGM held on 11 June 2019; and

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

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES (CONTINUED)

B3. Nomination Committee (Continued)

The measurable objectives for implementing the board diversity policy are as follows:

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

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

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

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

The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board is maintained during the FY2019. Based on the review by the Nomination Committee, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the board diversity policy for the FY2019.

B4. Audit Committee

The members of the Audit Committee during the FY2019 were as follows:

Non-executive Director:

Mr. Lin Kai

Independent non-executive Directors:

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

The Company has met the Listing Rules requirements regarding the composition of the Audit Committee throughout the FY2019. The majority of the Audit Committee members are independent non-executive directors. Mr. Chung Kwok Mo John possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

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

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES (CONTINUED)

B4. Audit Committee (Continued)

During the FY2019, the Audit Committee has held three meetings (the attendance records of each Committee member are set out in section A6 above). The Audit Committee performed the following major works during the year:

– Reviewed and discussed the annual financial statements, results announcement and annual report for the FY2019, the relevant audit findings of the Company's external auditor; and the recommendation of the re- appointment of the external auditor;

– Reviewed and discussed the interim financial statements, results announcement and interim report for the six months ended 30 June 2019 and the relevant review findings of the Company's external auditor;

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

– Reviewed the Group's continuing connected transactions for the FY2018 as well as the FY2019 and the revision of annual caps of the continuing connected transactions;

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

– Reviewed and approved the audit plan of the Company's external auditor, including the nature and scope of audit, remuneration and terms of engagement in respect of the audit on the financial statements for the FY2019; and

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

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

B5. Corporate Governance Committee

The members of the Corporate Governance Committee during the FY2019 and up to the date of this report were as follows:

Executive Directors:

Mr. Lam Chun Chin, Spencer *(Chairman)*
Mr. Huang Yifeng *(Appointed as a member on 21 January 2020)*

Non-executive Director:

Mr. Li Xianjun *(Resigned as a member on 21 January 2020)*

Independent non-executive Directors:

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

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

B. BOARD COMMITTEES (CONTINUED)

B5. Corporate Governance Committee (continued)

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

During the FY2019, the Corporate Governance Committee has held one meeting (the attendance records of each Committee member are set out in section A6 above). The Corporate Governance Committee performed the following major works during the year:

– Reviewed the policies and practices on corporate governance of the Group;

– Reviewed the training and continuous professional development of Directors and senior management;

– Reviewed the Company's policies and practices on compliance with legal and regulatory requirements;

– Reviewed the compliance of the Securities Dealing Code;

– Reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report;

– Reviewed the Group's process of disclosure, including assessing and verifying the accuracy and materiality of inside information and determined the form and content of certain required disclosures; and

– Reviewed the effectiveness of the shareholders' communication policy.

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

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

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the FY2019.

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

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

D. RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Management, in coordination with department heads, assesses the likelihood of risk occurrence, provides treatment plans, and monitors the risk management progress. Management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the FY2019.

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

During the FY2019, the Board, as supported by the Audit Committee as well as the report from management and the internal audit findings, reviewed the effectiveness of the Group's risk management and internal control systems, including the financial, operational and compliance controls, and considered that such systems are effective and adequate.

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

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

E. COMPANY SECRETARY

The Company Secretary is Ms. Wong Pui Wah, who fulfils the qualification requirements laid down in the Listing Rules. Biographical details of Ms. Wong Pui Wah are set out in the section headed "Biographies of Directors and Senior Management" of this report. During the FY2019, Ms. Wong has taken not less than 15 hours of relevant professional training.

F. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the Company's financial statements for the FY2019 is set out in the section headed "Independent Auditor's Report" in this report.

The fees paid/payable to Deloitte Touche Tohmatsu, the Company's auditor, in respect of audit services and non-audit services for the FY2019 are analysed below:

Type of services provided by the external auditor	Fees paid/payable *HK$*
Audit services – audit fee for the FY2019	2,550,000
Non-audit services	
– review of interim results for the six months ended 30 June 2019	487,000
– review of continuing connected transactions for the FY2019	135,000
– review of annual results announcement for the FY2019	28,500
TOTAL:	3,200,500

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

Attention: Company Secretary

Address: Suite 3610, 36th Floor, Office Tower, Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Hong Kong

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

Tel: (852) 2998 4626

Fax: (852) 3586 7681

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

CORPORATE GOVERNANCE PRACTICES (CONTINUED)

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (continued)

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

H. SHAREHOLDERS' RIGHTS

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

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

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

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

I. CONSTITUTIONAL DOCUMENTS

During the FY2019, the Company has not made any changes to the Articles. An up-to-date version of the Articles is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles for further details of the rights of Shareholders.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of YTO Express (International) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 145, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matters

Impairment assessment of trade receivables and contract assets

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

As at 31 December 2019, the Group's net trade receivables and contract assets amounting to HK$561,283,000 and HK$44,863,000 respectively.

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

As disclosed in note 42 to the consolidated financial statements, the Group recognised an additional amount of HK$6,417,000 and reversed an amount of HK$559,000 of allowance for credit losses of trade receivables for the year ended 31 December 2019 and the Group's lifetime ECL on trade receivables as at 31 December 2019 amounted to HK$10,206,000. No ECL for contract assets was recognised for the year ended 31 December 2019 and as at 31 December 2019.

How our audit addressed the key audit matter

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

- Understanding key controls on how management estimates the loss allowance for trade receivables and contract assets;
- Testing the integrity of information used by management to develop the provision matrix, including internal credit rating analysis of trade receivables and contract assets as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with reference to the past due records, payment records and other supporting documents;
- Assessing management's basis and judgement in determining allowance for credit losses on trade receivables and contract assets as at 31 December 2019, including the reasonableness of management's grouping of the trade receivables and contract assets into different categories in the provision matrix, the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical observed default rates and forward-looking information), and their identification of credit-impaired trade receivables; and
- Testing subsequent settlements of trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from these trade receivables.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matter
Impairment assessment of goodwill arising on the acquisition of OTX Logistics B.V. and its subsidiaries ("OTX Logistics Holland Group")	
We identified the impairment assessment of goodwill arising on the acquisition of OTX Logistics Holland Group as a key audit matter due to the significant judgements involved in management's assessment for the recoverable amount of a group of cash generating units to which goodwill has been allocated, which is derived from value in use calculation using key inputs including a growth rate and a discount rate applied to the estimated future cash flows. As detailed in notes 4 and 18 to the consolidated financial statements, as at 31 December 2019, the Group has goodwill of HK$14,828,000 arising on the acquisition of OTX Logistics Holland Group. The Group engaged a qualified external valuer (the "Valuer") to estimate the recoverable amount in goodwill impairment assessment. Management of the Group works closely with the Valuer to develop appropriate inputs to the value in use calculation. During the year ended 31 December 2019, no impairment loss was recognised in respect of goodwill arising on the acquisition of OTX Logistics Holland Group based on management's assessment.	Our procedures in relation to the impairment assessment of goodwill arising on the acquisition of OTX Logistics Holland Group included: • Obtaining an understanding of management's process and basis adopted in preparing the value in use calculation; • Evaluating the competence, capabilities and objectivity of the Valuer; • Evaluating the reasonableness of future cash flows to supporting evidence, including management's budget, past performance as well as our understanding of the business; • Assessing the reasonableness of the growth rate applied to the future cash flows based on historical results and trends together with management's budget; • Working with our internal valuation expert on the appropriateness of the discount rate applied; and • Evaluating the potential impact on the value in use calculation based on the reasonably possible changes of the key inputs applied by management of the Group.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5, 6	3,897,903	4,462,803
Cost of sales		(3,346,982)	(3,867,730)
Gross profit		550,921	595,073
Other income	7	15,726	24,529
Administrative expenses		(498,589)	(488,421)
Net impairment loss (recognised) reversed under expected credit loss model	11	(5,858)	1,424
Impairment loss on goodwill	18	(19,309)	–
Impairment loss on intangible assets	19	(787)	–
Other gains or losses	8	(2,663)	794
Share of results of associates		694	2,255
Share of results of joint ventures		1,250	661
Finance costs	9	(7,602)	(7,732)
Profit before taxation		33,783	128,583
Income tax expense	10	(5,170)	(22,880)
Profit for the year	11	28,613	105,703
Profit for the year attributable to:			
Owners of the Company		26,101	104,163
Non-controlling interests		2,512	1,540
		28,613	105,703
Earnings per share (Hong Kong cents)			
Basic	14	6.32	25.14
Diluted	14	6.32	25.14

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	**2019** *HK$'000*	**2018** *HK$'000*
Profit for the year		28,613	105,703
Other comprehensive income (expense), net of income tax:			
Items that will not be reclassified to profit or loss			
Revaluation increase (decrease) on leasehold land and buildings		605	(352)
Deferred tax arising on revaluation of leasehold land and buildings	*39*	(54)	225
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive expense of associates		(224)	(262)
Share of other comprehensive expense of joint ventures		(190)	(255)
Exchange difference arising from foreign operations		(6,371)	(15,888)
Other comprehensive expense for the year		(6,234)	(16,532)
Total comprehensive income for the year		22,379	89,171
Total comprehensive income for the year attributable to:			
Owners of the Company		20,600	86,922
Non-controlling interests		1,779	2,249
		22,379	89,171

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Investment properties	15	6,471	6,742
Property, plant and equipment	16	44,032	41,252
Right-of-use assets	17	51,256	–
Goodwill	18	14,828	35,024
Intangible assets	19	11,244	16,273
Interests in associates	20	16,045	15,575
Interests in joint ventures	21	7,720	6,660
Finance lease receivables	22	8,427	–
Deferred tax assets	39	392	331
		160,415	121,857
Current assets			
Trade receivables	23	561,283	747,516
Other receivables, deposits and prepayments	23	53,197	59,782
Contract assets	24	44,863	63,990
Financial asset at fair value through profit or loss	25	952	901
Debt investment at amortised cost	26	7,580	7,522
Finance lease receivables	22	12,345	–
Amount due from immediate holding company	27	1,245	1,245
Amounts due from joint ventures	29	7,233	3,367
Amounts due from associates	28	11,730	10,902
Amount due from a fellow subsidiary	27	42	–
Amount due from a related company	30	–	243
Loan to an associate	28	200	500
Prepaid tax		6,341	1,161
Pledged bank deposits	31	20,720	7,548
Bank balances and cash	31	269,008	240,733
		996,739	1,145,410
Current liabilities			
Trade and other payables	32	402,905	441,439
Contract liabilities	33	6,464	–
Financial liabilities at fair value through profit or loss	34	–	2,725
Loan from immediate holding company	27	30,000	–
Amounts due to associates	28	2,763	4,092
Amounts due to fellow subsidiaries	27	128	23,272
Amount due to a related company	30	–	31
Tax liabilities		3,629	8,202
Lease liabilities – due within one year	35	47,242	–
Obligations under finance leases – due within one year	36	–	173
Bank borrowings	37	30,565	189,041
		523,696	668,975
Net current assets		473,043	476,435
Total assets less current liabilities		633,458	598,292

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Other payables – due after one year	32	3,855	2,919
Financial liabilities at fair value through profit or loss	34	–	2,022
Lease liabilities – due after one year	35	23,557	–
Obligations under finance leases – due after one year	36	–	74
Deferred tax liabilities	39	8,933	10,970
		36,345	15,985
		597,113	582,307
Capital and reserves			
Share capital	40	41,676	41,427
Reserves		548,929	534,694
Net assets attributable to owners of the Company		590,605	576,121
Non-controlling interests		6,508	6,186
Total equity		597,113	582,307

The consolidated financial statements on pages 50 to 145 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company												
	Share capital *HK$'000*	Share premium *HK$'000*	Treasury stock *HK$'000*	Capital reserve *HK$'000*	Special reserve *HK$'000* *(Note a)*	Share awards reserve *HK$'000*	Translation reserve *HK$'000*	Statutory reserve *HK$'000* *(Note c)*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 31 December 2018	41,427	420,916	(6,563)	(22,681)	(295,411)	738	(38,233)	15,419	11,241	449,268	576,121	6,186	582,307
HKFRS 16 adjustment *(note 2)*	–	–	–	–	–	–	–	–	–	1,793	1,793	–	1,793
At 1 January 2019 (adjusted)	41,427	420,916	(6,563)	(22,681)	(295,411)	738	(38,233)	15,419	11,241	451,061	577,914	6,186	584,100
Profit for the year	–	–	–	–	–	–	–	–	–	26,101	26,101	2,512	28,613
Revaluation increase on leasehold land and buildings	–	–	–	–	–	–	–	–	605	–	605	–	605
Deferred tax arising on revaluation of leasehold land and buildings	–	–	–	–	–	–	–	–	(54)	–	(54)	–	(54)
Share of other comprehensive expense of associates	–	–	–	–	–	–	(224)	–	–	–	(224)	–	(224)
Share of other comprehensive expense of joint ventures	–	–	–	–	–	–	(190)	–	–	–	(190)	–	(190)
Exchange difference arising from foreign operations	–	–	–	–	–	–	(5,638)	–	–	–	(5,638)	(733)	(6,371)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	(6,052)	–	551	26,101	20,600	1,779	22,379
Recognition of equity-settled share-based payment *(note 46)*	–	–	–	–	–	5,343	–	–	–	–	5,343	–	5,343
Issue of shares upon exercise of equity-settled share-based payment *(notes 40, 46)*	249	8,322	–	–	–	(6,081)	–	–	–	–	2,490	–	2,490
Dividends paid to shareholders *(note 13)*	–	–	–	–	–	–	–	–	–	(15,742)	(15,742)	–	(15,742)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(1,457)	(1,457)
Transfer to statutory reserve	–	–	–	–	–	–	–	1,982	–	(1,982)	–	–	–
At 31 December 2019	41,676	429,238	(6,563)	(22,681)	(295,411)	–	(44,285)	17,401	11,792	459,438	590,605	6,508	597,113

Notes:

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 *HK$'000*	2018 *HK$'000*
Operating activities		
Profit before taxation	33,783	128,583
Adjustments for:		
Interest income	(2,510)	(1,004)
Finance costs	7,602	7,732
Share of results of associates	(694)	(2,255)
Share of results of joint ventures	(1,250)	(661)
Depreciation of property, plant and equipment	9,187	11,562
Depreciation of right-of-use assets	36,972	–
Amortisation of intangible assets	5,422	5,395
Loss on disposal of property, plant and equipment	355	1,093
Gain on early termination of lease contracts	(202)	–
Net impairment loss recognised (reversed) under expected credit loss model	5,858	(1,424)
Fair value changes of financial asset at fair value through profit or loss	(51)	116
Fair value changes of financial liabilities at fair value through profit or loss	253	1,115
Impairment loss on goodwill	19,309	–
Impairment loss on intangible assets	787	–
Equity-settled share-based payment	5,343	738
Fair value changes of investment properties	112	457
Write down of long outstanding payables	(987)	(2,827)
Operating cash flows before movements in working capital	119,289	148,620
Decrease (increase) in trade receivables	175,529	(75,010)
Decrease in contract assets	19,127	5,779
Decrease (increase) in other receivables, deposits and prepayments	1,025	(3,208)
(Increase) decrease in amounts due from joint ventures	(3,334)	1,854
Decrease in amounts due from associates	674	368
Decrease (increase) in amount due from a related company	243	(243)
Decrease in trade and other payables	(35,746)	(11,693)
Increase in contract liabilities	6,464	–
(Decrease) increase in amounts due to associates	(3,800)	1,527
(Decrease) increase in amounts due to fellow subsidiaries	(23,144)	23,272
Cash generated from operations	256,327	91,266
Income taxes paid	(16,826)	(27,412)
Net cash from operating activities	239,501	63,854
Investing activities		
Interest received	2,336	912
Net cash inflow on disposals of subsidiaries	–	9,239
Purchase of property, plant and equipment	(13,241)	(7,463)
Proceeds from disposal of property, plant and equipment	327	849
Proceeds from early termination of lease contracts	130	–
Repayment from associates	536	1,156
(Advance to) repayment from joint ventures	(357)	278
Additions of intangible assets	(1,435)	(42)
Withdrawal of pledged bank deposits	21	7,663
Placement of pledged bank deposits	(13,155)	(6,767)
Advance to a fellow subsidiary	(42)	–
Payments for contingent considerations	(2,500)	(3,000)
Proceeds from debt investment at amortised cost	7,554	–
Investment in debt investment at amortised cost	(7,469)	(7,430)
Repayment from finance lease receivables	11,685	–
Dividend from an associate	–	1,675
Net cash used in investing activities	(15,610)	(2,930)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 *HK$'000*	2018 *HK$'000*
Financing activities		
(Decrease) increase in bank overdrafts	(1,829)	698
(Repayment to) advance from a joint venture	(175)	175
Advance from associates	733	–
(Repayment to) advance from a related party	(31)	31
Loan from immediate holding company	30,000	–
Decrease in factoring loans	(75,476)	(21,052)
Interests paid	(7,602)	(7,732)
New bank loans obtained	196,533	488,161
Repayment of bank loans	(277,704)	(458,536)
Dividends paid to non-controlling interests	(1,457)	(6,714)
Dividends paid to shareholders	(15,742)	(9,528)
Repayments of lease liabilities/obligations under finance leases	(47,026)	(400)
Payment for additional interest in a subsidiary	–	(38,000)
Proceeds from issuance of new shares	2,490	–
Payment for transactions attributable to repurchase of ordinary shares	–	(6,563)
Net cash used in financing activities	(197,286)	(59,460)
Net increase in cash and cash equivalents	26,605	1,464
Cash and cash equivalents at the beginning of the year	240,733	248,201
Effect of foreign exchange rate changes	1,670	(8,932)
Cash and cash equivalents at the end of the year	269,008	240,733
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	269,008	240,733

1. GENERAL

YTO Express (International) Holdings Limited (the "Company") was incorporated and registered as an exempted company with limited liability under the Companies Law in the Cayman Islands on 6 March 2013 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2014. The ultimate holding company of the Company is Shanghai Yuantong Jiaolong Investment Development (Group) Co., Ltd., a company incorporated in the PRC. The intermediate holding company of the Company is YTO Express Group Co., Ltd., a joint stock limited liability company incorporated in the PRC with its shares listed on the Shanghai Stock Exchange. The immediate holding company of the Company is YTO Global Holdings Limited, a limited liability company incorporated in Hong Kong. The addresses of the registered office and the principal place of business of the Company are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Suite 3610, 36th Floor, Office Tower, Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Hong Kong respectively.

The Company acts as an investment holding company. The principal activities of associates, joint ventures and subsidiaries are set out in notes 20, 21 and 50 respectively.

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

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

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

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

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

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

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

HKFRS 16 "Leases"

The Group has applied HKFRS 16 "Leases" ("HKFRS 16") for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong was determined on a portfolio basis; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The lessee's incremental borrowing rates applied by relevant group entities range from 3% to 8% per annum.

	Note	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018		116,483
Operating lease commitments for new leases not yet commenced on 1 January 2019		(10,658)
		105,825
Lease liabilities discounted at relevant incremental borrowing rates		100,605
Add: Extension options reasonably certain to be exercised		1,542
Less: Recognition exemption – short-term leases		(926)
Recognition exemption – low-value assets		(121)
Practical expedient – leases with lease term ending within 12 months from the date of initial application		(8,273)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		92,827
Add: Obligations under finance leases recognised at 31 December 2018	*(a)*	247
Lease liabilities as at 1 January 2019		93,074
Analysed as		
Current		40,164
Non-current		52,910
		93,074

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

HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	At 1 January 2019 *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		92,827
Derecognition of right-of-use assets under subleases classified as finance leases	*(c)*	(26,646)
Amounts included in property, plant and equipment as at 31 December 2018 – Assets previously under finance leases	*(a)*	454
Less: Accrued lease liabilities at 1 January 2019	*(b)*	(3,356)
		63,279
By class:		
Land and buildings		62,309
Furniture & fixture		293
Motor vehicles		677
		63,279

(a) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under leases as at 1 January 2019 amounting to HK$454,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of HK$173,000 and HK$74,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

(b) *Lease payments increase progressively over lease terms*

These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities included in trade and other payables as at 1 January 2019 was adjusted to right-of-use assets at transition.

As a lessor

In accordance with the transition provisions in HKFRS 16, except for subleases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. As at 1 January 2019 and during the year ended 31 December 2019, there was no adjustment to advance lease payments from lessees in relation to the fair value of refundable rental deposits received as the Group considered that it is insignificant.

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

HKFRS 16 "Leases" (Continued)

As a lessor (Continued)

(c) Upon application of HKFRS 16, right-of-use assets of HK$26,646,000 were derecognised as the related subleases were classified as finance leases by reference to the right-of-use assets arising from the head leases. Finance lease receivables of HK$11,680,000 and HK$20,889,000 were recognised as current and non-current net investment in the subleases respectively and accrued lease assets of HK$4,130,000 included in other receivables, deposits and prepayments were derecognised from the subleases. The difference of HK$1,793,000 between recognition of finance lease receivables and derecognition of right-of-use assets and deferred rent assets was recognised in the opening retained profits.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	Note	**Impact of adopting HKFRS 16 at 1 January 2019** *HK$'000*
Retained profits		449,268
Adjustment for subleases	*(c)*	1,793
Impact at 1 January 2019		451,061

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

HKFRS 16 "Leases" (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 *HK$'000*	Adjustments *HK$'000*	Carrying amounts under HKFRS 16 at 1 January 2019 *HK$'000*
Non-current assets				
Property, plant and equipment	*(a)*	41,252	(454)	40,798
Right-of-use assets	*(a), (b), (c)*	–	63,279	63,279
Finance lease receivables	*(c)*	–	20,889	20,889
Current assets				
Other receivables, deposits and prepayments	*(c)*	59,782	(4,130)	55,652
Finance lease receivables	*(c)*	–	11,680	11,680
Current liabilities				
Trade and other payables	*(b)*	441,439	(3,356)	438,083
Lease liabilities	*(a)*	–	40,164	40,164
Obligations under finance leases	*(a)*	173	(173)	–
Non-current liabilities				
Lease liabilities	*(a)*	–	52,910	52,910
Obligations under finance leases	*(a)*	74	(74)	–
Capital and reserves				
Reserves	*(c)*	534,694	1,793	536,487

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

The following tables summarise the impacts of applying HKFRS 16 as a lessor on the Group's consolidated statement of financial position as at 31 December 2019 and its consolidated statement of profit or loss, consolidated profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2019 for each of the line items affected. Line items that were not affected by the changes have not been included.

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

HKFRS 16 "Leases" (Continued)

Impact on the consolidated statement of financial position

	Notes	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 16 as lessor HK$'000
Non-current assets				
Right-of-use assets	*(d)*	51,256	16,521	67,777
Finance lease receivables	*(d)*	8,427	(8,427)	–
Current assets				
Other receivables, deposits and prepayments	*(d)*	53,197	2,848	56,045
Finance lease receivables	*(d)*	12,345	(12,345)	–
Current liabilities				
Tax liabilities		3,629	105	3,734
Capital and reserves				
Reserves	*(d)*	548,929	(1,508)	547,421

Impact on the consolidated statement of profit or loss

	Notes	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 16 as lessor HK$'000
Other income	*(d)*	15,726	10,416	26,142
– Interest income on finance lease receivables		818	(818)	–
– Rental income from operating lease fixed lease payment		993	(993)	–
– Rental income		–	12,227	12,227
Administrative expenses	*(d)*	(498,589)	(10,035)	(508,624)
Profit before taxation		33,783	381	34,164
Income tax expense		(5,170)	(105)	(5,275)
Profit for the year		28,613	276	28,889
Profit for the year attributable to owners of the Company		26,101	276	26,377
Basic earnings per share *(HK cents)*		6.32	0.07	6.39
Diluted earnings per share *(HK cents)*		6.32	0.07	6.39

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

HKFRS 16 "Leases" (Continued)

Impact on the consolidated statement of profit or loss and other comprehensive income

	Note	**As reported** *HK$'000*	**Adjustments** *HK$'000*	**Amounts without application of HKFRS 16 as lessor** *HK$'000*
Profit for the year		28,613	276	28,889
Exchange difference arising from foreign operations	*(d)*	(6,371)	9	(6,362)
Other comprehensive expense for the year		(6,234)	9	(6,225)
Total comprehensive income for the year		22,379	285	22,664
Total comprehensive income for the year attributable to owners of the Company		20,600	285	20,885

Impact on the consolidated statement of cash flows

	Note	**As reported** *HK$'000*	**Adjustments** *HK$'000*	**Amounts without application of HKFRS 16 as lessor** *HK$'000*
Operating activities				
Profit before taxation	*(d)*	33,783	381	34,164
Adjustments for				
– Interest income		(2,510)	818	(1,692)
– Depreciation of right-of-use assets		36,972	10,035	47,007
Operating cash flows before movements in working capital		119,289	11,234	130,523
Decrease in other receivables, deposits and prepayments		1,025	1,269	2,294
Cash generated from operations		256,327	12,503	268,830
Net cash generated from operating activities		239,501	12,503	252,004
Investment activities				
Interest received	*(d)*	2,336	(818)	1,518
Repayment from finance lease receivables	*(d)*	11,685	(11,685)	–
Net cash used in investing activities		(15,610)	(12,503)	(28,113)

(d) The above changes affected in the current year by the application of HKFRS 16 as compared to HKAS 17 are resulted from the opening adjustments described in note (c) made to the consolidated statement of financial position at 1 January 2019 upon adoption of HKFRS 16. Without application of HKFRS 16 as lessor, depreciation on the right-of-use assets of HK$10,035,000 included in administrative expenses and income tax expense of HK$105,000 have been charged and rental income of HK$11,234,000 included in other income has been recognised. Upon application of HKFRS 16 as lessor, interest income on finance lease receivables of HK$818,000 has been recognised. Exchange difference arising from foreign operations of HK$9,000 is credited to translation reserve.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to HKFRS 3 "Definition of a Business"

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

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

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial positions and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (Continued)

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position. For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the acquisition, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates and joint ventures

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

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

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

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allowed to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates and joint ventures (Continued)

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

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

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

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

Revenue from contracts with customers

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

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

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

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

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

Output method

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

Principal versus agent

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

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses if any.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

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

Before application of HKFRS 16, assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Investment properties

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties (Continued)

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

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets acquired in a business combination

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

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

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

Impairment losses on property, plant and equipment and right-of-use assets

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

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporates assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal, its value in use and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on property, plant and equipment and right-of-use assets (Continued)

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

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

A financial asset is held for trading if:

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

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

(i) Amortised cost and interest income

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

(ii) Financial assets at FVTPL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables, rental deposits, debt investment at amortised cost, amounts due from immediate holding company, joint ventures, associates, a related company and a fellow subsidiary, loan to an associate, pledged bank deposits and bank balances) and other items (contract assets and finance lease receivables) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

(i) Significant increase in credit risk

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the finance lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

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

- Nature of financial instruments (i.e. the Group's trade receivables and contract assets are assessed as a separate group. Other receivables, rental deposits, amounts due from and loan to related parties, debt investment at amortised cost, finance lease receivables, pledged bank deposits and bank balance are assessed for ECL on an individual basis);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

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

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets, amounts due from related parties and debt investment at amortised cost where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities at amortised cost

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

Financial liabilities at FVTPL

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

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Retirement benefit costs

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRSs require or permit the inclusion of the benefit in the cost of an asset.

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

Equity-settled share-based payment arrangements

Share award plan

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

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

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

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of land and buildings, computer equipment, furniture & fixture and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as lessee (prior to 1 January 2019)

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

Lease modification to a finance lease

The Group accounts for a modification to a finance lease as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification to a finance lease that is not accounted for as a separate lease, the Group accounts for the modification as follows:

(a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the Group shall:

   (i) account for the lease modification as a new lease from the effective date of the modification; and

   (ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

(b) otherwise, the Group applies the requirements of HKFRS 9.

Lease modification to an operating lease

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Deferred taxation on investment properties

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

Principal versus agent consideration

The Group engages in provision of freight forwarding services. The Group concludes that the Group acts as the principal for such transactions as it controls the service before the service is transferred to a customer taking into consideration indicator that the Group is primarily responsible for fulfilling the promise to provide the services. When the Group satisfies the performance obligation, the Group recognises revenue in the gross amount of consideration to which the Group expects to be entitled as specified in the contracts.

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount which is the higher of fair value less cost of disposal and value in use of the group of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from each group of cash-generating units and a suitable discount rate and growth rate in order to calculate the present value. For goodwill arising on the acquisition of OTX Logistics B.V. and its subsidiaries ("OTX Logistics Holland Group"), the Group engaged a qualified external valuer (the "Valuer") to estimate the recoverable amount in goodwill impairment assessment. Management of the Group works closely with the Valuer to develop appropriate inputs to the value in use calculation. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss may arise. As at 31 December 2019, the carrying amount of goodwill arising from OTX Logistics Holland Group was HK$14,828,000 (2018: HK$15,251,000). Based on management's assessment, no impairment loss was recognised in respect of goodwill arising on the acquisition of OTX Logistics Holland Group during the year ended 31 December 2019. Details are disclosed in note 18.

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

Key sources of estimation uncertainty (continued)

Estimated impairment of intangible assets

Intangible assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amounts of intangible assets are HK$11,244,000 (2018: HK$16,273,000), after taking into account the impairment loss of HK$787,000 (2018: nil) in respect of intangible assets that has been recognised. Details of the impairment of intangible assets are disclosed in note 19.

Useful lives of customer lists and trademarks

Amortisation is provided to write off the cost of customer lists and trademarks included in intangible assets over their estimated useful lives which are determined by the Group. The carrying amount of customer lists and trademarks as at 31 December 2019 were HK$4,458,000 (2018: HK$9,224,000) and HK$4,168,000 (2018: HK$5,103,000) respectively. In applying the accounting policy on these intangible assets with respect to amortisation, the directors of the Company estimate the useful lives of customer lists and trademarks according to the industrial experiences over the revenue expectation and also by reference to the relevant industrial norm. Should the useful lives of these assets differ from that previously estimated, the calculation of amortisation would be affected.

Fair value measurements and valuation processes

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

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

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair values of certain properties and certain types of financial instruments. Notes 15, 16, 25, 34 and 42 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

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

Key sources of estimation uncertainty (continued)

Estimated impairment of trade receivables and contract assets

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

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

The Group's lifetime ECL on trade receivables as at 31 December 2019 amounted to HK$10,206,000 (2018: HK$6,566,000). No ECL was recognised for contract assets for the years ended 31 December 2019 and 31 December 2018.

5. REVENUE

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

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

6. SEGMENT INFORMATION

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

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on five main operations.

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

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results

	Segment revenue		Segment results	
	2019 *HK$'000*	**2018** *HK$'000*	**2019** *HK$'000*	**2018** *HK$'000*
Operating and reportable segments				
Air freight (*note i*)	2,201,854	3,129,295	151,558	235,173
Ocean freight (*note i*)	855,276	856,969	119,175	127,733
Logistics (*note ii*)	81,591	76,768	15,107	6,413
International express and parcel (*note iii*)	642,349	282,094	65,457	25,367
Others (*note iv*)	116,833	117,677	20,395	27,293
Total	3,897,903	4,462,803	371,692	421,979
Other income			15,726	24,529
Other gains or losses			(2,663)	794
Unallocated corporate expenses			(345,314)	(313,903)
Share of results of associates			694	2,255
Share of results of joint ventures			1,250	661
Finance costs			(7,602)	(7,732)
Profit before taxation			33,783	128,583

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

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

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

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

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

(b) Segment assets and liabilities

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

6. SEGMENT INFORMATION (CONTINUED)

(c) Geographical information

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

	Revenue from external customers	
	2019 *HK$'000*	**2018** *HK$'000*
The PRC *(note i)*	2,600,936	3,070,373
Europe *(note ii)*	432,222	570,703
Northern America *(note iii)*	418,592	409,664
Other Asian regions *(note iv)*	446,153	412,063
	3,897,903	4,462,803

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

	2019 *HK$'000*	**2018** *HK$'000*
The PRC *(note i)*	79,879	67,817
Europe *(note ii)*	37,209	27,892
Northern America *(note iii)*	4,265	1,041
Other Asian regions *(note iv)*	6,478	2,541
	127,831	99,291

Notes:

(i) Included in the PRC segment are revenue from Hong Kong amounting to HK$1,864,122,000 (2018: HK$1,969,379,000) and non-current assets from Hong Kong amounting to HK$55,515,000 (2018: HK$36,167,000).

(ii) Included in Europe segment are revenue from the Netherlands amounting to HK$391,250,000 (2018: HK$524,935,000) and non-current assets from the Netherlands amounting to HK$37,175,000 (2018: HK$27,842,000).

(iii) Included in Northern America segment are revenue from the United States of America (the "USA") amounting to HK$370,110,000 (2018: HK$365,455,000) and non-current assets from the USA amounting to HK$4,093,000 (2018: HK$1,041,000).

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

(v) Non-current assets exclude interests in associates, interests in joint ventures, deferred tax assets and finance lease receivables (2018: interests in associates, interests in joint ventures and deferred tax assets).

(d) Information about major customers

Included in revenue arising from international express and parcel services are revenue of HK$449,721,000 (2018: not over 10% of the total revenue of the Group) which arose from sales to the Group's largest customer. No other single customers contributed over 10% of the total revenue of the Group for both 2018 and 2019.

7. OTHER INCOME

	2019 *HK$'000*	2018 *HK$'000*
Interest income on:		
– bank deposits	1,505	887
– loan to an associate	13	25
– debt investment at amortised cost	174	92
– finance lease receivables	818	–
Rental income from operating lease fixed lease payment	993	–
Rental income	–	12,591
Maintenance fee income	3,535	2,911
Management fee income	4,486	3,749
IT service income	450	345
Write down of long outstanding payables	987	2,827
Insurance compensation income	1,934	–
Sundry income	831	1,102
	15,726	24,529

8. OTHER GAINS OR LOSSES

	2019 *HK$'000*	2018 *HK$'000*
Fair value changes of financial liabilities at FVTPL *(note 34)*	(253)	(1,115)
Loss on disposal of property, plant and equipment	(355)	(1,093)
Gain on early termination of lease contracts	202	–
Fair value changes of financial asset at FVTPL	51	(116)
Fair value changes of investment properties	(112)	(457)
Net foreign exchange (loss) gain	(2,401)	3,412
Others	205	163
	(2,663)	794

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interests on		
– bank borrowings	3,742	7,716
– lease liabilities/obligations under finance leases	3,860	16
	7,602	7,732

10. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Current tax:		
– Hong Kong Profits Tax	1,523	4,008
– EIT in the PRC	232	6,621
– Netherlands Corporate Income Tax	1,227	4,191
– Indian Corporate Income Tax	105	764
– Vietnam Corporate Income Tax	1,430	1,644
– Thailand Corporate Income Tax	109	229
– Malaysia Corporate Income Tax	2,025	1,620
– Canadian Corporate Income Tax	793	820
– Other jurisdictions	1,655	2,440
	9,099	22,337
(Over)under provision in respect of prior years		
– Hong Kong Profits Tax	(1,960)	(112)
– EIT in the PRC	251	(164)
– Other jurisdictions	(263)	421
	(1,972)	145
Withholding tax on dividend received	–	3,398
	7,127	25,880
Deferred taxation *(note 39)*	(1,957)	(3,000)
	5,170	22,880

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits during both financial years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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

10. INCOME TAX EXPENSE (CONTINUED)

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

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

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

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

The corporate income tax in Thailand is calculated at 20% of assessable profit during both financial years.

Malaysia corporate income tax is calculated at 24% of the estimated assessable profit during both financial years.

Income tax expense in Canada comprises federal corporate income tax and provincial corporate income tax at 15% and 11.5% respectively during both financial years.

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

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

Details of the deferred taxation are set out in note 39.

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

	2019 *HK$'000*	**2018** *HK$'000*
Profit before taxation	33,783	128,583
Tax at the Hong Kong Profits Tax rate of 16.5% (2018: 16.5%)	5,574	21,216
Tax effect of expenses not deductible for tax purposes	10,414	4,228
Tax effect of income not taxable for tax purposes	(13,741)	(804)
Tax effect of share of results of associates	(114)	(372)
Tax effect of share of results of joint ventures	(206)	(109)
Effect on tax exemption granted	(213)	(30)
Tax effect of tax losses not recognised	5,966	1,202
Utilisation of tax losses previously not recognised	(2,274)	(2,070)
(Over)under provision in respect of prior years	(1,972)	145
Effect of different tax rates of group entities operating in jurisdictions other than Hong Kong	2,467	(2,424)
Withholding tax on undistributed earnings	(1,221)	(1,673)
Withholding tax upon dividend declared	–	3,398
Others	490	173
Income tax expense for the year	5,170	22,880

11. PROFIT FOR THE YEAR

	2019 *HK$'000*	2018 *HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration	7,114	5,953
Depreciation of property, plant and equipment	9,187	11,562
Depreciation of right-of-use assets	36,972	–
Amortisation of intangible assets (included in administrative expenses)	5,422	5,395
Allowance for credit losses on trade receivables recognised	6,417	5,505
Reversal of allowance for credit losses on trade receivables	(559)	(6,929)
	5,858	(1,424)
Operating lease rentals in respect of rented premises and motor vehicles	–	65,764
Staff costs		
Directors' emoluments *(note 12)*	3,709	2,165
Other staff costs		
Staff costs excluding retirement benefit contributions	297,095	276,085
Retirement benefit contributions	28,698	27,294
Equity-settled share-based payment	5,343	738
Total staff costs	334,845	306,282
Gross rental income from investment properties	333	356
Less: outgoings incurred which generated rental income	(69)	(79)
	264	277

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

Directors' and chief executive's emoluments

Year ended 31 December 2019

Name of director	Directors' fees *HK$'000*	Basic salaries and allowances *HK$'000*	Performance bonus *(note i)* *HK$'000*	Retirement benefit contributions *HK$'000*	Total *HK$'000*
Executive directors					
Mr. Lam Chun Chin, Spencer ("Mr. Lam")	–	281	2,000	14	2,295
Mr. Li Xianjun ("Mr. Li") *(note ii)*	–	114	700	–	814
Non-executive directors					
Mr. Yu Huijiao	–	–	–	–	–
Mr. Su Xiufeng *(note iii)*	–	–	–	–	–
Mr. Zhu Rui *(note iii)*	–	–	–	–	–
Mr. Lin Kai	–	–	–	–	–
Independent non-executive directors					
Mr. Li Donghui	200	–	–	–	200
Mr. Xu Junmin	200	–	–	–	200
Mr. Chung Kwok Mo John	200	–	–	–	200
	600	395	2,700	14	3,709

Year ended 31 December 2018

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

Note i: The amounts are discretionary bonus which are determined based on individual performance.

Note ii: The director was re-designated as a non-executive director on 21 January 2020.

Note iii: The director was resigned on 21 January 2020.

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

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

Directors' and chief executive's emoluments (Continued)

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

Except Mr. Li agreed to waive remuneration of HK$923,000 (2018: Nil), there was no other arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Five highest paid individuals

The five highest paid individuals included one director (2018: Nil) whose emoluments were included in the disclosure above. The emoluments of the remaining 4 highest paid individuals (2018: five) for the year ended 31 December 2019 are as follows:

	2019 *HK$'000*	2018 *HK$'000*
Employees		
– basic salaries and allowances	5,809	7,249
– performance bonus	2,645	2,035
– equity-settled share-based payment	1,185	110
– retirement benefit contributions	258	360
	9,897	9,754

Their emoluments were within the following bands:

	2019 No. of employees	2018 No. of employees
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	–	3
HK$2,000,001 to HK$2,500,000	2	–
HK$2,500,001 to HK$3,000,000	2	–
HK$3,000,001 to HK$3,500,000	–	1

During the years ended 31 December 2019 and 31 December 2018, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDEND

	2019 *HK$'000*	2018 *HK$'000*
Final dividend for the year ended 31 December 2018 of HK3.8 cents (2017: HK2.3 cents) per share	15,742	9,528

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK1.0 cents (2018: HK3.8 cents) per share, in an aggregate amount of HK$4,168,000 (2018: HK$15,742,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

	2019 *HK$'000*	2018 *HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	26,101	104,163
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	412,895,452	414,251,074

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

The computation of diluted earnings per share does not assume the exercise of the Company's share awards because the specified conditions set out under share award plan have not been satisfied as at 31 December 2019 and 31 December 2018.

15. INVESTMENT PROPERTIES

The Group leases out various offices premises under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 year to 2 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entity. The lease contracts do not contain residual value guarantee and lessee's option to purchase the property at the end of lease term.

	2019 *HK$'000*	2018 *HK$'000*
At the beginning of the year	6,742	7,531
Fair value changes recognised in profit or loss	(112)	(457)
Exchange realignment	(159)	(332)
At the end of the year	6,471	6,742

15. INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties are all situated outside of Hong Kong as at 31 December 2019 and 31 December 2018. The fair value of these investment properties have been arrived at on the basis of a valuation carried out on the respective dates by RHL Appraisal Limited, an independent qualified professional valuer not connected with the Group. The directors of RHL Appraisal Limited are members of the Hong Kong Institute of Surveyors, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values of the investment properties were determined by using the direct comparison approach with reference to the recent transaction prices for similar properties as available, adjusted for differences in the nature, location and conditions of the subject properties. There has been no change to the valuation technique during the year.

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

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

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Computer equipment *HK$'000*	Furniture and equipment *HK$'000*	Leasehold improvements *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST OR VALUATION						
At 1 January 2018	22,462	38,713	25,833	19,253	5,345	111,606
Additions	–	3,942	1,305	2,000	216	7,463
Revaluation	(1,028)	–	–	–	–	(1,028)
Disposals	–	(4,363)	(4,775)	(798)	(415)	(10,351)
Exchange realignment	(991)	(669)	(531)	(250)	(90)	(2,531)
At 31 December 2018	20,443	37,623	21,832	20,205	5,056	105,159
Adjustments upon application of HKFRS 16	–	–	(399)	–	(562)	(961)
At 1 January 2019 (restated)	20,443	37,623	21,433	20,205	4,494	104,198
Additions	–	2,763	7,675	2,154	649	13,241
Revaluation	90	–	–	–	–	90
Disposals	–	(1,633)	(794)	(1,395)	(1,153)	(4,975)
Exchange realignment	(484)	(338)	(324)	(118)	(34)	(1,298)
At 31 December 2019	20,049	38,415	27,990	20,846	3,956	111,256
Comprising:						
31 December 2019						
At cost	–	38,415	27,990	20,846	3,956	91,207
At valuation	20,049	–	–	–	–	20,049
	20,049	38,415	27,990	20,846	3,956	111,256
Comprising:						
31 December 2018						
At cost	–	37,623	21,832	20,205	5,056	84,716
At valuation	20,443	–	–	–	–	20,443
	20,443	37,623	21,832	20,205	5,056	105,159
DEPRECIATION						
At 1 January 2018	–	27,927	17,118	13,293	4,065	62,403
Charge for the year	702	4,486	2,849	3,101	424	11,562
Elimination on revaluation	(676)	–	–	–	–	(676)
Eliminated on disposals	–	(4,276)	(3,095)	(623)	(415)	(8,409)
Exchange realignment	(26)	(447)	(377)	(66)	(57)	(973)
At 31 December 2018	–	27,690	16,495	15,705	4,017	63,907
Adjustments upon application of HKFRS 16	–	–	(106)	–	(401)	(507)
At 1 January 2019 (restated)	–	27,690	16,389	15,705	3,616	63,400
Charge for the year	524	3,714	2,336	2,227	386	9,187
Elimination on revaluation	(515)	–	–	–	–	(515)
Eliminated on disposals	–	(1,410)	(644)	(1,085)	(1,154)	(4,293)
Exchange realignment	(9)	(236)	(205)	(76)	(29)	(555)
At 31 December 2019	–	29,758	17,876	16,771	2,819	67,224
CARRYING VALUES						
At 31 December 2019	20,049	8,657	10,114	4,075	1,137	44,032
At 31 December 2018	20,443	9,933	5,337	4,500	1,039	41,252

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Leasehold land and buildings	Over the term of the lease
Computer equipment	20% – $33^1/_3$%
Furniture and equipment	20% – $33^1/_3$%
Leasehold improvements	5 years or over the term of the lease if shorter
Motor vehicles	20%

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

The Group's leasehold land and buildings were valued on 31 December 2019 and 31 December 2018 by RHL Appraisal Limited, an independent qualified professional valuer not connected with the Group. The directors of RHL Appraisal Limited are members of the Hong Kong Institute of Surveyors, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values of the leasehold land and buildings were determined by using the direct comparison approach with reference to the recent transaction prices for similar properties as available adjusted for differences in the nature, location and conditions of the subject properties. There has been no change to the valuation technique during the year.

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

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

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

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

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

	2019 *HK$'000*	**2018** *HK$'000*
Cost	12,131	12,131
Accumulated depreciation	(3,497)	(3,151)
Carrying value	8,634	8,980

The carrying values of property, plant and equipment of HK$454,000 as at 31 December 2018 in respect of assets held under finance leases were reclassified to right-of-use assets upon application of HKFRS 16.

17. RIGHT-OF-USE ASSETS

	Land and buildings *HK$'000*	Computer equipment *HK$'000*	Furniture & fixture *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
As at 1 January 2019					
Carrying amount	62,309	–	293	677	63,279
As at 31 December 2019					
Carrying amount	46,686	909	213	3,448	51,256
For the year ended 31 December 2019					
Depreciation charge	34,797	364	80	1,731	36,972
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16					17,746
Expense relating to leases of low-value assets, excluding short-term leases of low value assets					230
Total cash outflow for leases					68,862
Additions to right-of-use assets					28,060

For both years, the Group leases various land and buildings, computer equipment, furniture & fixture and motor vehicles for its operations. Lease contracts are entered into for fixed term of 1 to 10 years, 1 to 4 years, 1 to 5 years and 1 to 5 years respectively (2018: 1 to 10 years, N/A, 1 to 5 years and 1 to 5 years respectively). Certain leases of motor vehicles and furniture and equipment were accounted for as finance leases during the year ended 31 December 2018 and carried interest ranged from 1.06% to 6.38%. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group regularly entered into short-term leases for land and buildings, computer equipment, furniture & fixture and motor vehicles and leases of low-value assets for computer equipment and furniture & fixture. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there is no such triggering event.

In addition, lease liabilities of HK$70,799,000 are recognised with related right-of-use assets of HK$51,256,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in notes 35 and 42.

18. GOODWILL

	Acquisition of OTX Logistics Holland Group *HK$'000*	**Acquisition of Best Loader Shanghai** *HK$'000*	**Acquisition of Best Loader HK** *HK$'000*	**Total** *HK$'000*
COST				
At 1 January 2018	15,852	20,456	145	36,453
Exchange realignment	(601)	(905)	—	(1,506)
At 31 December 2018, as originally stated	15,251	19,551	145	34,947
Adjustment to fair value of assets acquired in prior year *(note)*	—	77	—	77
At 31 December 2018, as restated	15,251	19,628	145	35,024
Exchange realignment	(423)	(464)	—	(887)
At 31 December 2019	14,828	19,164	145	34,137
IMPAIRMENT				
At 1 January 2018 and 31 December 2018	—	—	—	—
Impairment loss for the year	—	19,164	145	19,309
At 31 December 2019	—	19,164	145	19,309
CARRYING VALUES				
At 31 December 2019				14,828
At 31 December 2018				35,024

Note: Adjustment to goodwill subsequent to an acquisition

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

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

	Originally stated *HK$'000*	**Adjustment** *HK$'000* *(note 19)*	**Restated** *HK$'000*
Intangible asset	3,875	(77)	3,798

18. GOODWILL (CONTINUED)

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

The carrying value of goodwill has been allocated to the cash generating units ("CGUs") of OTX Logistics Holland Group, Best Loader HK and Best Loader Shanghai at the amount of Euro ("EUR") 1,700,000 (equivalent to approximately HK$14,828,000) (2018: EUR1,700,000 (equivalent to approximately HK$15,251,000)), HK$145,000 (2018: HK$145,000) and Renminbi ("RMB") 17,176,000 (equivalent to approximately HK$19,164,000) (2018: RMB17,176,000 (equivalent to approximately HK$19,628,000)) respectively for impairment testing purpose.

OTX Logistics Holland Group

The recoverable amount of the group of CGUs of OTX Logistics Holland Group have been determined on the basis of value in use calculation by management working together with the Valuer. The value in use calculation uses future cash flows prepared by management of the Group which are based on financial budgets covering a 5-year period (2018: 5-year period) and a pre-tax discount rate of 15.40% (2018: 16.14%). Cash flows beyond the 5-year period have been extrapolated using zero growth rate. The key assumptions are budgeted gross margin based on the past performance and the Group's expectation for the market development. Management of the Group believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the group of CGUs to exceed its recoverable amount.

Best Loader HK and Best Loader Shanghai

The recoverable amounts of the CGUs of Best Loader HK and Best Loader Shanghai have been determined on the basis of value in use calculation by management. The value in use calculation uses future cash flows prepared by management of the Group which are based on a 1-year financial budget (2018: financial budgets covering a 5-year period).

Best Loader HK and Best Loader Shanghai gradually ceased their businesses since 2020 and future cash flows deriving from their businesses were negative. The recoverable amount of the goodwill of Best Loader HK and Best Loader Shanghai amounted to Nil and Nil respectively as at 31 December 2019. As a result, management of the Group has determined to provide an impairment loss on all goodwill directly related to Best Loader HK and Best Loader Shanghai amounting to HK$145,000 (2018: Nil) and HK$19,164,000 (2018: Nil) respectively.

19. INTANGIBLE ASSETS

	Computer system *HK$'000*	Customer lists *HK$'000*	Trademarks *HK$'000*	Total *HK$'000*
COST				
At 1 January 2018	2,485	29,902	9,350	41,737
Addition	42	–	–	42
Adjustment to fair value of asset acquired in prior year *(note 18)*	–	(77)	–	(77)
Exchange realignment	(94)	(1,127)	–	(1,221)
At 31 December 2018	2,433	28,698	9,350	40,481
Addition	1,435	–	–	1,435
Exchange realignment	(69)	(759)	–	(828)
At 31 December 2019	3,799	27,939	9,350	41,088
AMORTISATION AND IMPAIRMENT				
At 1 January 2018	–	16,253	3,312	19,565
Charge for the year	502	3,958	935	5,395
Exchange realignment	(15)	(737)	–	(752)
At 31 December 2018	487	19,474	4,247	24,208
Charge for the year	712	3,775	935	5,422
Impairment loss recognised in the year	–	787	–	787
Exchange realignment	(18)	(555)	–	(573)
At 31 December 2019	1,181	23,481	5,182	29,844
CARRYING VALUES				
At 31 December 2019	2,618	4,458	4,168	11,244
At 31 December 2018	1,946	9,224	5,103	16,273

Intangible assets with finite useful lives represent the carrying amounts of the customer lists arising on the acquisition of OTX Logistics Holland Group, Best Loader HK and Best Loader Shanghai, trademarks purchased from Mr. Lam and computer system.

The above intangible assets are amortised using the straight-line method at the following rates per annum:

Computer system	20%
Customer lists	10%–33$\frac{1}{3}$%
Trademarks	10%

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

Because of the gradual cessation of business operations of Best Loader Shanghai and Best Loader HK in 2020, management of the Group assessed that their recoverable amounts were less than the carrying amounts. Intangible assets of HK$787,000 in relation to Best Loader HK and Best Loader Shanghai has been fully impaired.

20. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Cost of investments, unlisted	14,979	14,979
Share of post-acquisition profits and other comprehensive income, net of dividends received	1,514	1,044
Impairment loss recognised	(448)	(448)
	16,045	15,575

Particulars of associates at 31 December 2019 and 31 December 2018 are as follows:

Name of entity	Place/country of incorporation/ operation	Class of issued capital shares	Proportion of nominal value of interest held by the Company 2019	2018	Principal activities
Fashion Care Logistics B.V.	The Netherlands	Ordinary	33.3%	33.3% *(note a)*	Inactive
On Time Worldwide Logistics Limited	Bangladesh	Ordinary	49%	49%	Provision of freight forwarding services
On Time Worldwide Logistics L.L.C.	The United Arab Emirates	Ordinary	49%	49%	Provision of freight forwarding services
On Time Worldwide International Cargo Services L.L.C.	The United Arab Emirates	Ordinary	49%	49%	Provision of freight forward services
VGL Hong Kong Limited ("VGL HK")	Hong Kong	Ordinary	50% *(note b)*	50% *(note b)*	Provision of freight forwarding services
威超國際貨運代理有限公司 ("VGL China")	The PRC	Registered	50% *(note c)*	50% *(note c)*	Provision of freight forwarding services
On Time Worldwide Logistics (Private) Limited	Sri Lanka	Ordinary	40%	40%	Provision of freight forwarding services
On Time Worldwide Logistics Ltd.	Korea	Ordinary	48%	48%	Provision of freight forwarding services
義烏市通碩國際貨運代理有限公司	The PRC	Registered	22.3% *(note d)*	22.3% *(note d)*	Inactive

Notes:

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

(b) The board composition of the associate comprised of 3 directors, in which 1 of the directors was appointed by the Group and the remaining 2 directors were appointed by the other independent third party, as such, the Group exercises significant influence in deciding the associate's financial and operating policy, the resolution of which required approval by simple majority of the board and accordingly accounts for its interest in VGL HK as an associate.

(c) VGL China is a wholly-owned subsidiary of VGL HK.

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

20. INTERESTS IN ASSOCIATES (CONTINUED)

Aggregate financial information of associates that are not individually material:

	2019 *HK$'000*	2018 *HK$'000*
The Group's share of results of associates	694	2,255
The Group's share of other comprehensive expense	(224)	(262)
The Group's share of total comprehensive income	470	1,993
Aggregate carrying amount of the Group's interests in associates	16,045	15,575

Unrecognised share of losses of associates

	2019 *HK$'000*	2018 *HK$'000*
The unrecognised share of losses of associates for the year	507	56
Reversal of unrecognised share of losses in previous years	(270)	(931)
Cumulative unrecognised share of losses of associates for the year	1,378	1,141

21. INTERESTS IN JOINT VENTURES

	2019 *HK$'000*	2018 *HK$'000*
Cost of investments, unlisted	2,831	2,831
Share of post-acquisition profits and other comprehensive income, net of dividends received	4,889	3,829
	7,720	6,660

Particulars of the joint ventures at 31 December 2019 and 31 December 2018 are as follows:

Name of entity	Place/country of incorporation/ operation	Class of issued capital shares	Proportion of nominal value of interest held by the Company 2019	2018	Principal activities
OTX Logistics Rotterdam B.V.	The Netherlands	Ordinary	50%	50%	Provision of freight forwarding services
On Time Compliance Services Limited	Hong Kong	Ordinary	50%	50%	Inactive

21. INTERESTS IN JOINT VENTURES (CONTINUED)

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

	2019 *HK$'000*	**2018** *HK$'000*
The Group's share of results of joint ventures	1,250	661
The Group's share of other comprehensive expense	(190)	(255)
The Group's share of total comprehensive income	1,060	406
Aggregate carrying amount of the Group's interests in joint ventures	7,720	6,660

22. FINANCE LEASE RECEIVABLES

The Group entered into finance lease arrangements as a lessor for land and buildings. The average terms of finance leases entered into usually range from 4 to 5 years. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee.

During the year ended 31 December 2019, the finance lease receivables decreased due to the repayment from lessees.

	Minimum lease payments 31 December 2019 *HK$'000*	**Present value of minimum lease payments 31 December 2019** *HK$'000*
Finance lease receivables comprise:		
Within one year	12,799	12,345
In more than one year but not more than two years	8,521	8,427
	21,320	20,772
Less: unearned finance income	(548)	N/A
Present value of minimum lease payment receivables	20,772	20,772
Analysed as:		
Current		12,345
Non-current		8,427
		20,772

As at 31 December 2018, no finance lease receivables were recognised.

Interest rates implicit in the above finance leases is 3% (2018: Nil).

Details of impairment assessment of finance lease receivables are set out in note 42.

23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 *HK$'000*	2018 *HK$'000*
Trade receivables	571,489	754,082
Less: allowance for credit losses	(10,206)	(6,566)
	561,283	747,516

As at 1 January 2018, trade receivables from contract with customers amounted to HK$694,374,000.

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

	2019 *HK$'000*	2018 *HK$'000*
0 – 30 days	321,962	421,085
31 – 60 days	152,119	219,799
61 – 90 days	49,488	66,437
91 – 180 days	31,501	29,428
Over 180 days	6,213	10,767
	561,283	747,516

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate amount of HK$239,321,000 (2018: HK$326,431,000) which are past due. Out of the past due balances, HK$12,619,000 (2018: HK$16,260,000) has been past due 90 days or more and is not considered as default based on payment history and long business relationship with those customers. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables are set out in note 42.

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

	2019 *HK$'000*	2018 *HK$'000*
Other deposits	19,413	24,059
Other receivables	3,619	2,909
Other tax receivables	4,926	3,626
Prepayments	15,603	15,652
Rental deposits	9,636	13,536
	53,197	59,782

Details of impairment assessment of other receivables and rental deposits are set out in note 42.

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

Transfers of financial assets

The followings are the Group's trade receivables as at 31 December 2019 and 31 December 2018 that were transferred to banks by factoring those trade receivables on a full recourse basis. As the Group has not transferred substantially all risks and rewards of the ownership of to these trade receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as secured factoring loans (see note 37).

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

	2019 *HK$'000*	2018 *HK$'000*
Carrying amount of transferred assets	50	88,845
Carrying amount of associated liabilities	(42)	(75,518)
Net position	8	13,327

24. CONTRACT ASSETS

As at 1 January 2018, contract assets amounted to HK$69,769,000.

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

Details of impairment assessment of contract assets are set out in note 42.

25. FINANCIAL ASSET AT FVTPL

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

26. DEBT INVESTMENT AT AMORTISED COST

As at 31 December 2019, the Group held an unsecured bond with carrying amount of HK$7,580,000 (2018: HK$7,522,000) denominated in US$ with nominal value at US$950,000 (2018: US$950,000). The unsecured bond bears a fixed interest rate at 2.44% (2018: 1.33%) per annum and will be matured on 24 January 2020 (2018: 25 January 2019).

Details of impairment assessment of debt investment at amortised cost are set out in note 42.

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

As at 1 January 2018, no trade balances due from immediate holding company and fellow subsidiaries was recognised.

The amount due from immediate holding company and amount from a fellow subsidiary are non-trade related, unsecured, interest-free, and repayable on demand.

Details of impairment assessment of amount due from immediate holding company and amount due from a fellow subsidiary are set out in note 42.

The loan from immediate holding company is non-trade related, unsecured, interest-bearing at Hong Kong Interbank Offered Rate ("HIBOR") plus 1% and repayable on demand.

The amounts due to fellow subsidiaries are trade related, unsecured, interest-free and repayable on demand.

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

	2019 *HK$'000*	**2018** *HK$'000*
0 – 30 days	17	23,138
31 – 60 days	–	116
61 – 90 days	53	13
91 – 180 days	58	5
	128	23,272

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

As at 1 January 2018, trade balances due from associates amounted to HK$2,968,000.

As at 31 December 2019, other than set out below, amounts due from associates amounting to HK$9,804,000 (2018: HK$8,302,000) are non-trade related, unsecured, interest-free, and repayable on demand.

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

	2019 *HK$'000*	**2018** *HK$'000*
0 – 30 days	90	38
31 – 60 days	26	107
61 – 90 days	13	–
91 – 180 days	93	1
Over 180 days	1,704	2,454
	1,926	2,600

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

As at 31 December 2019, amounts due to associates comprise of (i) trade payables balance of HK$2,030,000 (2018: HK$5,830,000), and (ii) non-trade payables balance of HK$733,000 (2018: receivables of HK$1,738,000) which are non-trade related, interest-free and repayable on demand.

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

	2019 *HK$'000*	2018 *HK$'000*
0 – 30 days	1,970	3,495
31 – 60 days	–	2,049
61 – 90 days	60	25
91 – 180 days	–	195
Over 180 days	–	66
	2,030	5,830

As at 31 December 2019, the loan to an associate, VGL HK, amounting to HK$200,000 (2018: HK$500,000) is unsecured, repayable on demand and carries interest at 5% per annum.

Details of impairment assessment of amounts due from associates and loan to an associate are set out in note 42.

29. AMOUNTS DUE FROM JOINT VENTURES

As at 1 January 2018, trade balances due from joint ventures amounted to HK$5,396,000.

As at 31 December 2019, amounts due from joint ventures comprise of (i) trade receivables balance of HK$6,876,000 (2018: HK$3,542,000), and (ii) non-trade receivables balance of HK$357,000 (2018: payables of HK$175,000) which are unsecured, interest fee and repayable on demand.

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

	2019 *HK$'000*	2018 *HK$'000*
0 – 30 days	3,199	2,494
31 – 60 days	906	868
61 – 90 days	1,312	170
91 – 180 days	1,459	–
Over 180 days	–	10
	6,876	3,542

Details of impairment assessment of amounts due from joint ventures are set out in note 42.

30. AMOUNTS DUE FROM (TO) RELATED COMPANIES

As at 1 January 2018, no trade balances due from related parties was recognised.

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

	2019 *HK$'000*	**2018** *HK$'000*
Amount due from a related company		
Polaris Expedite Trading, Inc. *(note 1)*	–	243

	2019 *HK$'000*	**2018** *HK$'000*
Amount due to a related company		
On Good Development Limited *(note 2)*	–	31

Note 1: A company in which Mr. Hartmut Ludwig Haenisch ("Mr. Haenisch"), a key management personnel of the Company, has a controlling interest.

Note 2: A company in which Mr. Lam, a director of the Company, has a controlling interest.

The amount due from a related company is trade related, unsecured, interest-free and due within 30 days.

The amount due to a related company is non-trade related, unsecured, interest-free and repayable on demand.

Details of impairment assessment of amount due from a related company are set out in note 42.

31. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits of HK$20,720,000 (2018: HK$7,548,000) are pledged as securities in favour of banks facilities. The average effective interest rate of pledged bank deposits was 1.76% (2018: 0.41%) per annum as at 31 December 2019.

Bank balances as at 31 December 2019 carry interests at market rates which range from 0% to 3.5% (2018: 0% to 6.5%) per annum.

Details of impairment assessment of pledged bank deposits and bank balances are set out in note 42.

32. TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	269,772	326,604
Other payables and other taxes payable	19,768	25,535
Accrued freight expense	65,132	44,537
Accrued staff costs	31,557	29,673
Other accrued charges	9,602	9,228
Retirement benefits obligation	4,507	3,902
Deposit received and others	5,827	4,566
Advance from employees	595	313
	406,760	444,358
Analysed as:		
– current	402,905	441,439
– non-current	3,855	2,919
	406,760	444,358

The average credit period granted by suppliers is 30 days. Included in non-current other payables is mainly the retirement benefits obligations.

The following is an ageing analysis, based on invoice date, of trade payables at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Within 60 days	256,099	297,873
61 – 180 days	10,790	21,603
181 – 365 days	1,321	3,833
1 – 2 years	1,562	3,295
	269,772	326,604

33. CONTRACT LIABILITIES

As at 1 January 2018, no contract liabilities was recognised.

When the Group receives a deposit before the services commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

34. FINANCIAL LIABILITIES AT FVTPL

Financial liabilities at FVTPL represent contingent considerations of business combinations. Included in contingent considerations are nil (2018: HK$474,000) and nil (2018: HK$4,273,000) for acquisitions of Best Loader HK on 16 June 2017 and Best Loader Shanghai on 17 July 2017 respectively. Contingent considerations were recognised as current and non-current liabilities of HK$2,725,000 and HK$2,022,000 respectively as at 2018. Subject to and upon the terms and conditions of sales and purchase agreements, the Group shall pay cash to the vendor up to the value of HK$800,000 if net assets values of Best Loader HK as at 31 December 2017, 2018 and 2019 reached HK$3,000,000, HK$4,700,000 and HK$7,100,000 respectively; the Group shall pay cash to the vendor up to the value of HK$7,200,000 if net assets values of Best Loader Shanghai as at 31 December 2017, 2018 and 2019 reached HK$3,500,000, HK$5,300,000 and HK$7,900,000 respectively.

Fair values of contingent considerations were determined by RHL Appraisal Limited, an independent qualified professional valuer on 31 December 2018. Details of valuations of contingent considerations are set out in note 42.

35. LEASE LIABILITIES

	2019 *HK$'000*
Lease liabilities payable:	
Within one year	47,242
In more than one year but not more than two years	21,154
In more than two years but not more than five years	2,403
	70,799
Less: Amounts due for settlement within one year (shown under current liabilities)	(47,242)
Amounts due for settlement after one year (shown under non-current liabilities)	23,557

The ranges of interest rates are from 3% to 8%.

36. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments **2018** *HK$'000*	**Present value of minimum lease payments** **2018** *HK$'000*
Amounts payable under finance leases:		
Within one year	177	173
In more than one year but not more than two years	51	49
In more than two years but not more than five years	29	25
	257	247
Less: future finance charges	(10)	N/A
Present value of lease obligations	247	247
Less: Amount due for settlement within one year (shown under current liabilities)		(173)
Amount due for settlement after one year		74

36. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

The Group has leased certain of its motor vehicles and furniture and equipment under finance leases. The average lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 1.06% to 6.38% per annum as at 31 December 2018.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

37. BANK BORROWINGS

	2019 *HK$'000*	2018 *HK$'000*
Secured:		
– bank overdrafts	–	1,829
– bank loans	30,523	111,694
– factoring loans	42	75,518
	30,565	189,041

The borrowings are repayable:

	2019 *HK$'000*	2018 *HK$'000*
Bank borrowings:		
Repayable within one year from the end of reporting period based on original repayment schedule that contain a repayment on demand clause	30,523	111,694
Repayable on demand	42	77,347
	30,565	189,041

The Group's bank borrowings carry interest variable to HIBOR and London Interbank Offered Rate. As at 31 December 2019, the effective interest rates range from 1.33% to 5.25% (2018: 3.05% to 6.54%) per annum which expose the Group to cash flow interest rate risk.

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	At 1 January 2019 (restated)	New leases entered	Early termination of lease contracts	Exchange realignment	Dividend declared	Interest expense	Financing cash flows	At 31 December 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdrafts *(note 37)*	1,829	–	–	–	–	–	(1,829)	–
Bank loans *(note 37)*	111,694	–	–	–	–	–	(81,171)	30,523
– New bank loans obtained	–	–	–	–	–	–	196,533	–
– Repayment of bank loans	–	–	–	–	–	–	(277,704)	–
Factoring loans *(note 37)*	75,518	–	–	–	–	–	(75,476)	42
Loan from immediate holding company	–	–	–	–	–	–	30,000	30,000
Amounts due to joint ventures *(note 29)*	175	–	–	–	–	–	(175)	–
Amounts due to associates *(note 28)*	–	–	–	–	–	–	733	733
Amount due to a related company *(note 30)*	31	–	–	–	–	–	(31)	–
Lease liabilities *(note 35)*	93,074	28,060	(2,497)	(812)	–	3,860	(50,886)	70,799
Interest payable	–	–	–	–	–	3,742	(3,742)	–
Dividend paid to shareholders	–	–	–	–	15,742	–	(15,742)	–
Dividend paid to non-controlling interests	–	–	–	–	1,457	–	(1,457)	–

	At 1 January 2018	New finance leases	Exchange realignment	Dividend declared	Interest expense	Financing cash flows	At 31 December 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdrafts *(note 37)*	1,131	–	–	–	–	698	1,829
Bank loans *(note 37)*	82,069	–	–	–	–	29,625	111,694
– New bank loans obtained	–	–	–	–	–	488,161	–
– Repayment of bank loans	–	–	–	–	–	(458,536)	–
Factoring loans *(note 37)*	96,570	–	–	–	–	(21,052)	75,518
Amounts due to joint ventures *(note 29)*	–	–	–	–	–	175	175
Amount due to a related company *(note 30)*	–	–	–	–	–	31	31
Obligations under finance leases *(note 36)*	648	–	(1)	–	16	(416)	247
Interest payable	–	–	–	–	7,716	(7,716)	–
Dividend paid to shareholders	–	–	–	9,528	–	(9,528)	–
Dividend paid to non-controlling interests	–	–	–	6,714	–	(6,714)	–

39. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Revaluation of properties HK$'000	Withholding tax on undistributed earnings HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	(510)	(2,430)	(3,241)	(8,143)	90	(14,234)
Credit to profit or loss	389	603	119	1,673	216	3,000
Credit to other comprehensive income	–	–	225	–	–	225
Exchange realignment	2	74	138	158	(2)	370
At 31 December 2018	(119)	(1,753)	(2,759)	(6,312)	304	(10,639)
Credit to profit or loss	76	571	28	1,221	61	1,957
Charge to other comprehensive expense	–	–	(54)	–	–	(54)
Exchange realignment	(3)	45	65	85	3	195
At 31 December 2019	(46)	(1,137)	(2,720)	(5,006)	368	(8,541)

For the presentation purposes on the consolidated statement of financial position, certain deferred tax assets (liabilities) have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 HK$'000	2018 HK$'000
Deferred tax assets	392	331
Deferred tax liabilities	(8,933)	(10,970)
	(8,541)	(10,639)

At 31 December 2019, the Group had unused tax losses of HK$62,979,000 (2018: HK$40,605,000), available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years:

	2019 HK$'000	2018 HK$'000
2021	–	62
2024	11,564	–
2026	26	26
2032	–	623
2033	–	6,315
2034	285	1,647
2035	8,924	8,631
2036	1,536	1,545
Indefinite	40,644	21,756
	62,979	40,605

39. DEFERRED TAXATION (CONTINUED)

As at 31 December 2019, deferred tax liabilities have been recognised in respect of the aggregate amount of undistributed earnings of subsidiaries of HK$47,942,000 (2018: HK$63,118,000). As at 31 December 2019, the aggregate amount of undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK$12,253,000 (2018: HK$11,779,000). No liability has been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

40. SHARE CAPITAL

	Number of ordinary shares	Share capital *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2018, 31 December 2018 and 31 December 2019	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2018 and 31 December 2018	414,270,000	41,427
Issue of shares upon exercise of equity-settled share-based payment *(note)*	2,490,000	249
At 31 December 2019	416,760,000	41,676

Note: During the year ended 31 December 2019, the Company issued 2,490,000 ordinary shares of HK$0.10 each upon exercise of equity-settled share-based payment. The shares issued rank pari passu with other shares in issue in all aspects.

41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debts, which includes the bank borrowings disclosed in note 37, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, reserves and retained profits.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new shares issue and share buy-back as well as the issue of new debts or redemption of existing debt.

42. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 *HK$'000*	**2018** *HK$'000*
Financial assets		
Financial asset at FVTPL	952	901
Financial assets at amortised cost	892,296	1,036,021
Finance lease receivables	20,772	–
Financial liabilities		
Financial liabilities at FVTPL	–	4,747
Financial liabilities at amortised cost	350,764	569,067
Lease liabilities	70,799	–

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial asset at FVTPL, debt investment at amortised cost, finance lease receivables, trade receivables, other receivables, rental deposits, amount(s)/loan due from (to) related companies, immediate holding company, fellow subsidiaries, associates and joint ventures, pledged bank deposits, bank balances and cash, trade and other payables and bank borrowings. These risks include market risk (including interest rate risk, currency risk and price risk), credit risk and liquidity risk. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to finance lease receivables, lease liabilities and loan to an associate. The Group is also exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on variable-rate pledged bank deposits, bank balances, bank borrowings and loan from immediate holding company which carry interest at prevailing market interest rates.

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management has closely monitored the interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Interest rate sensitivity analysis

For the purpose of sensitivity analysis, the variable-rate pledged bank deposits and bank balances are excluded as the directors of the Company considered that the interest rate risk of variable-rate pledged bank deposits and bank balances are insignificant as the fluctuation in interest rate is limited. The sensitivity analysis below has been prepared based on the exposure to interest rates for variable-rate bank borrowings and loan from immediate holding company at the end of the reporting period and the stipulated change taking place at the beginning of the financial years and held constant throughout the reporting period. A 50 basis point (2018: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

If interest rate had been of 50 basis points higher/lower and all other variables held constant, the Group's post-tax profit would decrease/increase by HK$253,000 (2018: HK$789,000) for the year ended 31 December 2019.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. Management manages its foreign currency risk by closely reviewing the movement of the foreign currency rate and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities (including trade and other receivables, rental deposits, financial asset at FVTPL, debt investment at amortised cost, amounts due to fellow subsidiaries, amounts due from/to associates, amounts due from joint ventures, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to fellow subsidiaries, lease liabilities and bank borrowings) other than the respective group entities functional currencies at the end of the reporting period are as follows:

	2019 *HK$'000*	**2018** *HK$'000*
Assets		
US$	378,896	398,126
RMB	6,223	16,739
EUR	1,750	3,534
Indonesian Rupiah ("IDR")	10,665	4,585
Canadian dollar ("CAD")	764	1,061
Taiwan New Dollar ("TWD")	2,120	–
Liabilities		
US$	21,032	40,621
RMB	16,716	27,507
EUR	5,374	9,919
IDR	3,074	2,011
CAD	890	932
British pound Sterling	1,110	1,102
Malaysian Ringgit	3,861	3,020
TWD	54,467	12,978

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Currency risk (Continued)

The carrying amounts of foreign currency denominated intra-group balances which have been eliminated in the consolidated financial statements are as follows:

Amounts due to group entities

	2019 *HK$'000*	2018 *HK$'000*
US$	(22,169)	(158,350)
RMB	(34,566)	(42,467)
EUR	(3,614)	(8,613)

Currency risk sensitivity analysis

The group entities are mainly exposed to the effect of fluctuation in US$, RMB, EUR and TWD. The following table details the Group's sensitivity to a 10% increase and decrease in the functional currency of relevant group entities against US$, RMB, EUR and TWD. 10% (2018: 10%) is the sensitivity rate used as it represents management's assessment of the reasonably possible change in foreign exchange rates.

The Group's entities with functional currency of HK$ do not have significant foreign currency exposure in relation to net financial liabilities of HK$228,835,000 (2018: HK$210,384,000) that are denominated in the USD as the HK$ is pegged to the USD.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% change in foreign currency rates. A positive (negative) number below indicates an increase (a decrease) in profit where the functional currency of relevant group entities weakens against the US$, RMB, EUR and TWD. For a 10% strengthening of the functional currency of relevant group entities, there would be an equal and opposite impact on the profit.

Increase (decrease) in the profit

	2019 *HK$'000*	2018 *HK$'000*
US$ impact	9,051	(922)
RMB impact	(3,816)	(4,371)
EUR impact	(613)	(1,232)
TWD impact	(4,434)	(1,065)

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Price risk

The Group is exposed to price risk through its financial assets at FVTPL which are measured at fair value at the end of the reporting period.

If the market price of the financial assets at FVTPL had been 7% higher/lower while all other variables were held constant, the Group's profit for the year ended 31 December 2019 would increase/decrease by HK$56,000 (2018: HK$53,000).

(ii) Credit risk and impairment assessment

As at the end of the reporting period, the Group's maximum exposure to credit risk which would cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, debt investment at amortised cost, finance lease receivables and amounts due from/loan to related parties, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers spread over different geographical areas.

Trade receivables, contract assets, finance lease receivables and trade balances due from associates and joint ventures

The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL for these items. The Group determines the ECL on these items by using a provision matrix, grouped by internal credit rating. In addition, trade receivables with significant balances or credit-impaired are assessed for the ECL individually. For finance lease receivables and trade balances due from associates and joint ventures, the Group assessed for the ECL of these balances individually.

The contract assets have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets. The Group assessed the ECL for contract assets was insignificant and no loss allowance was recognised.

Other receivables and rental deposits

The directors of the Company make periodic individual assessment on the recoverability of other receivables and rental deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2019 and 2018, the Group assessed the ECL for other receivables and rental deposits were insignificant and thus no loss allowance was recognised.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(ii) Credit risk and impairment assessment (Continued)

Debt investment at amortised cost

The directors of the Company estimate the estimated loss rates of debt investment at amortised cost based on historical credit loss experience. Based on assessment by the directors of the Company, the loss given default is low and the directors of the Company considers the ECL for debt investment is insignificant.

Non-trade related balances due from immediate holding company, a fellow subsidiary, associates and joint ventures and loan to an associate

The Group regularly monitors the business performance of the immediate holding company, the fellow subsidiary, associates, joint ventures and the related company. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2019 and 2018, the Group assessed the ECL for non-trade related balances due from and loan to related parties were insignificant and thus no loss allowance was recognised.

Pledged bank deposits and bank balances

The credit risk on pledged bank deposits and bank balances is limited because the counterparties are reputable banks with high credit rating assigned by international credit-rating agencies. The Group assessed 12m ECL for pledged bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on pledged bank deposits and bank balances is considered to be insignificant.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets/ finance lease receivables/ trade balances due from associates and joint ventures	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any significant past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2019 within lifetime ECL (not credit-impaired). As at 31 December 2019, debtors credit-impaired of HK$5,859,000 (2018: HK$4,805,000) were assessed individually.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(ii) Credit risk and impairment assessment (Continued)

Gross carrying amount

Internal credit rating	2019 Average loss rate	2019 Trade receivables *HK$'000*	2018 Average loss rate	2018 Trade receivables *HK$'000*
Grade 1: Low risk	0.1%	254,665	0.1%	458,042
Grade 2: Watch list	1.3%	310,965	0.5%	291,235
		565,630		749,277

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2019, the Group provided HK$2,586,000 (2018: HK$1,225,000) impairment allowance for trade receivables based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) *HK$'000*	Lifetime ECL (credit-impaired) *HK$'000*	Total *HK$'000*
As at 1 January 2018	536	10,242	10,778
Impairment losses recognised	1,225	4,280	5,505
Reversal of impairment losses *(note)*	–	(6,929)	(6,929)
Amount written off	–	(2,648)	(2,648)
Exchange realignment	–	(140)	(140)
As at 31 December 2018	1,761	4,805	6,566
Impairment losses recognised	2,586	3,831	6,417
Reversal of impairment losses *(note)*	–	(559)	(559)
Amount written off	–	(2,144)	(2,144)
Exchange realignment	–	(74)	(74)
As at 31 December 2019	4,347	5,859	10,206

Note: Impairment losses of HK$559,000 (2018: HK$6,929,000) was reversed during the year due to settlements made by trade debtors.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(iii) Liquidity risk

The Group's liquidity position is monitored closely by management of the Group. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank loans and ensures compliance with loan covenants.

The Group relies on bank borrowings and advance from related companies as significant sources of liquidity during the reporting period. The Group has available unutilised borrowing facilities of HK$431,575,000 (2018: HK$244,207,000) as at 31 December 2019.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the applicable interest rate at the end of each reporting period.

	Weighted average effective interest rate	On demand	Less than 6 months	6 months to 1 year	1–2 years	Over 2 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31.12.2019								
Non-derivative financial liabilities								
Trade and other payables	–	13,673	269,780	–	–	3,855	287,308	287,308
Loan from immediate holding company	3.60	30,000	–	–	–	–	30,000	30,000
Amounts due to associates	–	2,763	–	–	–	–	2,763	2,763
Amounts due to fellow subsidiaries	–	128	–	–	–	–	128	128
Bank borrowings	3.40	30,565	–	–	–	–	30,565	30,565
Lease liabilities	4.27	–	26,602	21,989	22,029	2,673	73,293	70,799
		77,129	296,382	21,989	22,029	6,528	424,057	421,563
31.12.2018								
Non-derivative financial liabilities								
Trade and other payables	–	28,732	320,980	–	–	2,919	352,631	352,631
Amounts due to associates	–	4,092	–	–	–	–	4,092	4,092
Amounts due to fellow subsidiaries	–	23,272	–	–	–	–	23,272	23,272
Amount due to a related company	–	31	–	–	–	–	31	31
Bank borrowings	4.16	189,041	–	–	–	–	189,041	189,041
Obligations under finance leases	2.81	–	89	88	80	–	257	247
		245,168	321,069	88	80	2,919	569,324	569,314

The amounts included above for bank borrowings comprised term loans from banks with a repayment on demand clause. The maturity analysis of the term loans based on agreed scheduled repayments set out in the loan agreements is summarised below. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors of the Company believe that the term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

42. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(iii) Liquidity risk (Continued)

Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments

	Less than 6 months *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
As at 31 December 2019	30,970	30,970	30,523
As at 31 December 2018	112,457	112,457	111,694

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those effective interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

(i) Fair value measurements of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 2 and 3 based on the degree to which the fair value is observable.

Fair value hierarchy as at 31/12/2019

	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Financial asset at FVTPL			
Quoted investment fund	952	–	952

Fair value hierarchy as at 31/12/2018

	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Financial asset at FVTPL			
Quoted investment fund	901	–	901
Financial liability			
Contingent considerations of business combinations	–	4,747	4,747

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

42. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value measurements of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liability	Fair value 2019 *HK$'000*	Fair value 2018 *HK$'000*	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Investment fund classified as FVTPL	952	901	Level 2	Adjusted quoted market bid price	N/A
Contingent considerations of business combinations	–	4,747	Level 3	Discounted cash flow	N/A (2018: discount rate of 7.73 percent. Probability-adjusted net asset value, with a range from HK$8,345,000 to HK$11,456,000 in 2019 respectively.) *(note)*

Note: A slight increase in the probability-adjusted net asset value in isolation would result in a significant increase in the fair value and vice versa. A slight increase in discount rate in isolation would result in a significant decrease in the fair value and vice versa.

For the financial assets and financial liabilities that are not measured at fair value on a recurring basis, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

There was no transfer into or out of level 2 and 3 during the year.

(ii) Reconciliation of Level 3 fair value measurements

31 December 2019

	Contingent considerations of business combinations *HK$'000*
Opening balance	4,747
Fair value changes recognised in profit or loss	253
Settlements	(2,500)
Derecognition	(2,500)
Closing balance	–

31 December 2018

	Contingent considerations of business combinations *HK$'000*
Opening balance	6,632
Fair value changes recognised in profit or loss	1,115
Settlements	(3,000)
Closing balance	4,747

43. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,500 per month in maximum of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

OT China, Best Loader Shanghai and eTotal Solution Co. Ltd. ("eTotal China") are member of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of employees of OT China, Best Loader Shanghai and eTotal China, are charged to the profit or loss in the period to which they relate and represent the amount of contributions payable by OT China, Best Loader Shanghai and eTotal China to the scheme.

The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in other jurisdictions where the Group operates. Certain employees of the Group eligible for participating in the retirement schemes are entitled to retirement benefits from the schemes. The Group is required to make contributions to the retirement schemes up to time of retirement of the eligible employees, excluding those employees who resigned before their retirements, at a percentage that is specified by the local governments.

During the year ended 31 December 2019, the total cost charged to profit or loss of HK$28,712,000 (2018: HK$27,308,000) represents contributions payable to these schemes by the Group. As at 31 December 2019 and 31 December 2018, contributions of HK$4,507,000 and HK$3,902,000 respectively due in respect of the reporting period had not been paid over to the schemes.

44. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking facilities and bank borrowings granted to the Group at the end of the reporting period:

	2019 *HK$'000*	**2018** *HK$'000*
Trade receivables	50	88,845
Financial asset at FVTPL	952	901
Debt investment at amortised cost	7,580	7,522
Pledged bank deposits	20,720	7,548
	29,302	104,816

45. OPERATING LEASES

The Group as a lessor

The Group sublets office and warehouse under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 year. None of the leases include variable lease payments.

All of the properties held for rental purposes have committed lessees for the next 1 year.

Minimum lease payments receivable on leases are as follows:

	2019 *HK$'000*
Within one year	154

The Group had contracted with tenants for the following future minimum lease payments as follows:

	2018 *HK$'000*
Within one year	13,113
In the second to fifth year inclusive	20,693
	33,806

The properties held by the Group for rental purpose have committed tenants from 1 to 5 years.

The Group as a lessee

The Group had future minimum lease payments under non-cancellable operating leases in respect of various offices, quarters, furniture & fixture and motor vehicles are as follows:

	2018 *HK$'000*
Within one year	55,703
In the second to fifth year inclusive	60,261
Over five years	519
	116,483

As at 31 December 2018, included in the above future minimum lease payments within one year for related companies are HK$1,703,000.

The lease terms are between 1 and 10 years.

46. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Share Award Plan

A share award plan was adopted on 17 August 2018 (the "Share Award Plan"). The Share Award Plan is to recognise and reward the contribution of eligible participants to the growth and development of the Group, to give incentives to eligible participants in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The awarded shares will be subscribed for and/or purchased by an independent trustee (the "Trustee") from the open market by utilising the funds to be allocated by the directors of the Company out of the Company's resources. The maximum number of awarded shares to be subscribed for and/or purchased by the Trustee for the purpose of the Share Award Plan shall not exceed 5% of the total number of issued shares as at the beginning of such financial year.

The Share Award Plan shall be valid and effective for a period of 10 years commencing from 17 August 2018 but may be terminated earlier as determined by the board.

During the year ended 31 December 2019, the Trustee has not purchased ordinary shares of the Company on the Stock Exchange. During the year ended 31 December 2018, based on the Company's instructions, the Trustee has purchased and held a total of 2,200,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK$2.34 to HK$3.35 per share at a total consideration (including related transaction costs) of HK$6,563,000 until fulfillment of specified conditions before vesting.

The Company granted 10,400,000 shares to 42 selected participants on 31 August 2018, which will be vested 30%, 30% and 40% on every anniversary date of the grant date. 3 selected participants did not accept the award shares granted pursuant to the award. As such an aggregate of 9,400,000 award shares were granted and accepted by the selected participants.

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

	Date of grant	Number of share awards granted	Exercise period	Fair value per share award *HK$*
Batch 1 – Tranche 1	31 August 2018	570,000	31 August 2019 to 31 August 2028	2.49
Batch 1 – Tranche 2	31 August 2018	570,000	31 August 2020 to 31 August 2028	2.57
Batch 1 – Tranche 3	31 August 2018	760,000	31 August 2021 to 31 August 2028	2.62
Batch 2 – Tranche 1	31 August 2018	2,250,000	31 August 2019 to 31 August 2028	2.43
Batch 2 – Tranche 2	31 August 2018	2,250,000	31 August 2020 to 31 August 2028	2.52
Batch 2 – Tranche 3	31 August 2018	3,000,000	31 August 2021 to 31 August 2028	2.58

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

Weighted average share price	HK$3.34
Exercise price	HK$1
Expected volatility	59.69%
Expected life	10 years
Risk-free rate	2.144%
Expected dividend yield	0.69%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

46. EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Share Award Plan (Continued)

The following table discloses movements of the Company's share awards held by selected participants during the year:

Option type	Outstanding at 1/1/2019	Exercised during year	Forfeited during year	Outstanding at 31/12/2019
Batch 1 – Tranche 1	570,000	570,000	–	–
Batch 1 – Tranche 2	570,000	–	180,000	390,000
Batch 1 – Tranche 3	760,000	–	240,000	520,000
Batch 2 – Tranche 1	2,250,000	1,920,000	330,000	–
Batch 2 – Tranche 2	2,250,000	–	360,000	1,890,000
Batch 2 – Tranche 3	3,000,000	–	480,000	2,520,000
	9,400,000	2,490,000	1,590,000	5,320,000
Exercisable at the end of the year				–
Weighted average exercisable price	HK$1	HK$1	HK$1	HK$1

Option type	Outstanding at 1/1/2018	Granted during year	Outstanding at 31/12/2018
Batch 1 – Tranche 1	–	570,000	570,000
Batch 1 – Tranche 2	–	570,000	570,000
Batch 1 – Tranche 3	–	760,000	760,000
Batch 2 – Tranche 1	–	2,250,000	2,250,000
Batch 2 – Tranche 2	–	2,250,000	2,250,000
Batch 2 – Tranche 3	–	3,000,000	3,000,000
	–	9,400,000	9,400,000
Exercisable at the end of the year			–
Weighted average exercisable price	N/A	HK$1	HK$1

In respect of the share awards exercised during the year, the weighted average share price at the dates of exercise was HK$1 (2018: HK$1).

The Group recognised the total expense of HK$5,343,000 for the year ended 31 December 2019 (2018: HK$738,000) in relation to share awards granted by the Company based on the number of share awards granted expected to vest. At the end of the reporting period, the Group revises its estimates of the number of share awards that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share awards reserve.

During the year, with failure to meet the performance indicator at Group levels, no share awards are vested and therefore there is no share awards reserve as at 31 December 2019.

47. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of land and buildings, computer equipment and motor vehicles for 1 to 6 years. On the lease commencement, the Group recognised right-of-use assets of HK$28,060,000 and lease liabilities of HK$28,060,000. The Group derecognised right-of-use assets of HK$2,399,000 and lease liabilities of HK$2,497,000 because of early termination of lease contracts.

48. RELATED PARTY TRANSACTIONS

During the year, the Group has entered into the following related party transactions:

	2019 *HK$'000*	2018 *HK$'000*
Fellow subsidiaries		
– Freight income received	5,515	7,378
– International express and parcel income received	221	–
– Freight charge paid	39,863	35,058
– International express and parcel expenses paid	1,807	570
Associates		
– Freight income received	2,568	2,375
– Freight charge paid	37,088	60,723
– Management fee income received	2,419	2,429
– Management fee paid	–	1
– Loan interest income received	13	25
Joint venture		
– Freight income received	25,339	28,891
– Freight charge paid	3,051	2,648
Related company controlled by Mr. Lam		
– Expense related to short-term leases *(note 1)*	1,740	–
– Rental expenses paid *(note 1)*	–	1,740
Related company controlled by Mr. Haenisch		
– Freight income received	393	244
Related company controlled by Mr. Dennis Ronald de Wit *(note 2)*		
– Management fee paid	–	3,323

Note 1: During the year ended 31 December 2019 and 31 December 2018, the Group entered into several new lease agreements for the use of office premises with the related company for 1 year with monthly rent of HK$145,000.

Note 2: A company in which Mr. Dennis Ronald de Wit, a key management personnel of the Company, has a controlling interest.

The remuneration of directors of the Company and other members of key management of the Group during the year was as follows:

	2019 *HK$'000*	2018 *HK$'000*
Staff costs excluding equity-settled share-based payment and retirement benefit contributions	15,141	10,968
Equity-settled share-based payment	1,185	110
Retirement benefit contributions	303	295
	16,629	11,373

The remuneration of key management is determined having regard to the performance of individuals and market trends.

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 *HK$'000*	2018 *HK$'000*
Non-current assets		
Property, plant and equipment	1,755	–
Right-of-use assets	1,964	–
Interest in a subsidiary *(note i)*	683	683
Amounts due from subsidiaries	497,427	463,339
	501,829	464,022
Current assets		
Other receivables and prepayments	1,419	430
Amount due from immediate holding company	1,245	1,245
Bank balances and cash	2,981	654
	5,645	2,329
Current liabilities		
Other payables	6,379	2,877
Amount due to an associate	13	14
Lease liabilities – due within one year *(note iii)*	1,327	–
Loan from immediate holding company	30,000	–
	37,719	2,891
Net current liabilities	(32,074)	(562)
Total assets less current liabilities	469,755	463,460
Non-current liability		
Lease liabilities – due after one year *(note iii)*	807	–
	468,948	463,460
Capital and reserves *(note ii)*		
Share capital	41,676	41,427
Reserves	427,272	422,033
	468,948	463,460

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Notes:

(i) The investment represents unlisted investment cost on 100% equity interest in OT BVI and YTO Express Worldwide Limited ("YTO BVI").

(ii) Movement of the Company's reserves

	Share premium *HK$'000*	**Treasury stock** *HK$'000*	**Share awards reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2018	420,916	–	–	4,693	425,609
Profit and total comprehensive income for the year	–	–	–	11,777	11,777
Treasury stock addition *(note 46)*	–	(6,563)	–	–	(6,563)
Recognition of equity-settled share-based payment	–	–	738	–	738
Dividend paid to shareholders *(note 13)*	–	–	–	(9,528)	(9,528)
At 31 December 2018	420,916	(6,563)	738	6,942	422,033
Profit and total comprehensive income for the year	–	–	–	13,397	13,397
Recognition of equity-settled share-based payment *(note 46)*	–	–	5,343	–	5,343
Issue of shares upon exercise of equity-settled share-based payment	8,322	–	(6,081)	–	2,241
Dividend paid to shareholders *(note 13)*	–	–	–	(15,742)	(15,742)
At 31 December 2019	429,238	(6,563)	–	4,597	427,272

(iii) The Company has applied HKFRS 16 since 1 January 2019 in accordance with transitional provision stated in Note 3. No lease liabilities and right-of-use assets were recognised on initial application of HKFRS 16.

50. PARTICULARS OF SUBSIDIARIES

Particulars of subsidiaries as at 31 December 2019 and 31 December 2018 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2019	Equity interest attributable to the Group 2018	Place of operation	Principal activities
Gold Forum International Limited	The BVI 3 May 2011	US$50,000	100%	100%	Hong Kong	Inactive
Harbour Zone Limited	The BVI 4 January 2011	US$50,000	100%	100%	Hong Kong	Investment holding
Jumbo Channel Limited	The BVI 4 May 2011	US$50,000	100%	100%	Hong Kong	Investment holding
OT BVI	The BVI 3 March 2011	US$50,000	100%	100%	Hong Kong	Investment holding
YTO BVI	The BVI 19 March 2018	US$50,000	100%	100% *(note 1)*	Hong Kong	Investment holding
On Time Worldwide Logistics Cambodia Co., Ltd.	Cambodia 4 November 2010	KHR4,000,000	100%	100%	Cambodia	Provision of freight forwarding services
OTX Logistics Canada Limited	Canada 15 April 2011	CAD10	51%	51%	Canada	Provision of freight forwarding services
Citynet 聯城物流環球有限公司	Hong Kong 17 September 1999	HK$2	100%	100%	Hong Kong	General sales agency
YTO International eTotal Solution Limited (previously known as eTotal Solution Limited) *(note 2)*	Hong Kong 9 June 2015	HK$3,000,000	100%	100%	Hong Kong	Provision of international express and parcel services and investment holding
On Time Aviation Services Limited 先達航材服務有限公司	Hong Kong 11 April 2011	HK$10,000	100%	100%	Hong Kong	Contract logistics and investment holding
OT HK 先達國際貨運有限公司	Hong Kong 18 July 1995	HK$20,000,000	100%	100%	Hong Kong	Provision of freight forwarding services and investment holding

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group		Place of operation	Principal activities
			2019	2018		
On Line Service Limited	Hong Kong 17 December 2009	HK$10,000	100%	100%	Hong Kong	Investment holding
OT SL HK 先達航運有限公司	Hong Kong 15 September 2004	HK$10,000	100%	100%	Hong Kong	Issuing of bills of lading
On Time Worldwide Limited	Hong Kong 12 July 2011	HK$10,000	75%	75%	Hong Kong	Provision of freight forwarding services
OT WW HK 先達環球物流有限公司	Hong Kong 30 April 2004	HK$500,000	100%	100%	Hong Kong	Provision of warehousing services and international express and parcel services
On Union HK 安聯管理有限公司	Hong Kong 8 December 2003	HK$10,000	100%	100%	The PRC	Properties holding
On Time International Logistics Private Limited	India 12 January 2010	INR33,146,690	100%	100%	India	Provision of freight forwarding services
PT. On Time Express	Indonesia 22 February 2000	US$200,000	95%	95%	Indonesia	Provision of freight forwarding services
On Time Worldwide Logistics Ltd.	Japan 28 November 2011	JPY20,000,000	100%	100%	Japan	Provision of freight forwarding brokerage services
City Net Global Cargo Sdn. Bhd.	Malaysia 2 April 2012	RM100	100%	100%	Malaysia	Inactive
On Time International Logistics Sdn. Bhd. ("OT Int'l Malaysia")	Malaysia 4 December 2002	RM230,000	60% *(note 3)*	60% *(note 3)*	Malaysia	Inactive
On Time Worldwide Logistics Sdn. Bhd.	Malaysia 25 November 2004	RM1,500,000	100%	100%	Malaysia	Provision of freight forwarding services

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2019	2018	Place of operation	Principal activities
先達國際貨運（上海）有限公司@ OT China*	The PRC 10 October 2004	RMB12,000,000	100%	100%	The PRC	Provision of freight forwarding services and investment holding
深圳前海易達跨境電子商務有限公司@ eTotal China*	The PRC 26 July 2016	–	100%	100%	The PRC	Provision of international express and parcel services
On Time Worldwide Logistics Pte. Ltd.	Singapore 22 June 2006	SGD110,000	100%	100%	Singapore	Provision of freight forwarding services
OTX Logistics Korlátolt Felelösségü Társaság	Hungary 15 February 2017	HUF3,000,000	100%	100%	Hungary	Provision of freight forwarding services
Total Chain Limited	Hong Kong 17 March 2017	HK$10,000	100%	100%	Hong Kong	Provision of international express and parcel services
Best Loader HK	Hong Kong 29 July 2014	HK$1,000,000	100%	100%	Hong Kong	Provision of freight forwarding services
翼尊國際貨運代理（上海）有限公司@ Best Loader Shanghai*	The PRC 19 May 2016	RMB5,000,000	100%	100%	The PRC	Provision of freight forwarding services
On-Time Worldwide Logistics Limited ("OT Thailand")	Thailand 4 January 2006	THB10,000,000	82.5% *(note 4)*	82.5% *(note 4)*	Thailand	Agent for provision of freight forwarding services
OTX Logistics Holland	The Netherlands 28 May 1998	EUR86,300	100%	100% *(note 5)*	The Netherlands	Provision of freight forwarding services and investment holding
OTX Solutions Holland	The Netherlands 19 April 2006	EUR18,000	80%	80% *(note 5)*	The Netherlands	Provision of freight forwarding services
Westpoort Recon B.V.	The Netherlands 17 December 1993	EUR18,151	100%	100% *(note 5)*	The Netherlands	Provision of freight forwarding services

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group 2019	Equity interest attributable to the Group 2018	Place of operation	Principal activities
OTX Logistics Inc.	USA 1 October 2011	US$2,000,000	100%	100%	USA	Provision of freight forwarding services
On Time Worldwide Logistics DWC-LLC	The United Arab Emirates 25 April 2012	AED300,000	100%	100%	Dubai	Inactive
On Time Worldwide Logistics (Vietnam) Co., Ltd. ("OT Vietnam")	Vietnam 22 December 2005	US$80,000	100% *(note 6)*	100% *(note 6)*	Vietnam	Provision of freight forwarding services
YTO Express International (Singapore) Pte. Ltd.	Singapore 29 July 2019	SGD100,000	100% *(note 7)*	N/A	Singapore	Inactive

* The English name is translated for identification purpose only.

@ The company is a wholly-owned foreign enterprise established in the PRC.

Notes:

1. YTO BVI was incorporated in the BVI as a limited company on 19 March 2018.

2. eTotal Solution Limited has changed its name to YTO International eTotal Solution Limited on 27 December 2019.

3. OT Int'l Malaysia has submitted an application for strike off. As of the date these consolidated financial statements were authorised for issuance, the strike off application has not been completed.

4. 33.5% of the equity interest in OT Thailand is held by a third party on behalf of the Group through loan assignment, share pledge agreement, letter of undertaking and proxy entered by the third party and the Group.

5. On 16 April 2018, 25% of the equity interest of OTX Logistics Holland was acquired at a consideration of HK$38,000,000. Following the acquisition, OTX Logistics Holland and Westpoort Recon B.V. are wholly-owned by the Group and OTX Solutions Holland is owned as to 80% by the Group.

6. 49% of the equity interest in OT Vietnam is held by a third party on behalf of the Group through loan agreement, charter capital mortgage agreement, letter of undertaking and proxy entered by the third party and the Group.

7. YTO Express International (Singapore) Pte. Ltd. was incorporated in Singapore as a private limited company on 29 July 2019.

8. None of the subsidiaries had issued any debt securities at the end of the year, or at any time during the year.

51. SUBSEQUENT EVENTS

(a) Acquisition

Subsequent to 31 December 2019, the Group completed its negotiations with YTO Global Holdings Limited, the immediate holding company of the Company for the acquisition of 100% of YTO Courier (Hong Kong) Company Limited, a fellow subsidiary. The transaction was completed on 30 March 2020 and the acquisition cost of HK$6,940,000 was satisfied in cash. Details of the acquisition are set out in the Company's announcement dated 30 March 2020. The acquisition will enhance the Group's ability to capture the development opportunities arising from the global cross-border e-commerce business as YTO Courier (Hong Kong) Company Limited is principally engaged in the provision of international express and parcel services.

Assets and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Net assets recognised:	
Property, plant and equipment	761
Intangible assets	19
Trade receivables	5,559
Other receivables, deposits and prepayments	732
Bank balances and cash	21,509
Trade and other payables	(20,967)
	7,613

(b) COVID-19 impact

The global outbreak of the COVID-19 and the subsequent quarantine measures imposed by the governments of various countries as well as the travel restrictions in early 2020 have had a negative impact on the operations of the Group, as it worsens the trading environment globally which affects logistic business of the Group. The Group has assessed the impact of the outbreak of COVID-19 on its operation and taken the necessary measures to limit and minimize the impact to a lower level. The Group will keep continuous attention on the global situation on the trading environment as well as the logistics industry and make timely responses and measures in the future.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements.

RESULTS

	Year ended 31 December				
	2019	**2018**	**2017**	**2016**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	3,897,903	4,462,803	3,670,514	2,867,339	3,223,589
Profit before taxation	33,783	128,583	123,510	16,036	65,359
Income tax expense	5,170	22,880	22,525	9,733	13,006
Profit attributable to owners of the Company	26,101	104,163	97,501	4,967	49,900
Profit attributable to non-controlling interests	2,512	1,540	3,484	1,336	2,453

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	**2018**	**2017**	**2016**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	160,415	121,857	136,960	109,233	115,061
Current assets	996,739	1,145,410	1,100,387	830,996	750,881
Total assets	1,157,154	1,267,267	1,237,347	940,229	865,942
Current liabilities	523,696	668,975	665,840	461,344	372,775
Total assets less current liabilities	633,458	598,292	571,507	478,885	493,167
Non-current liabilities	36,345	15,985	17,768	16,245	17,676
Net assets	597,113	582,307	553,739	462,640	475,491
Equity					
Share capital	41,676	41,427	41,427	41,280	41,457
Reserves	548,929	534,694	485,571	393,659	404,734
Net assets attributable to owners of the Company	590,605	576,121	526,998	434,939	446,191
Non-controlling interests	6,508	6,186	26,741	27,701	29,300
Total equity	597,113	582,307	553,739	462,640	475,491

GLOSSARY

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

"AGM"	annual general meeting of the Company
"Articles"	the amended and restated articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"BVI"	British Virgin Islands
"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	YTO Express (International) Holdings Limited (formerly known as "On Time Logistics Holdings Limited")
"Company Secretary"	the secretary of the Company
"Corporate Governance Committee"	the corporate governance committee of the Company
"Director(s)"	the director(s) of the Company
"Executive Committee"	the executive committee of the Company
"FY2018"	the year ended 31 December 2018
"FY2019"	the year ended 31 December 2019
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Date"	11 July 2014, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"MD&A"	the Management Discussion and Analysis
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company
"Prospectus"	the prospectus of the Company dated 30 June 2014
"Remuneration Committee"	the remuneration committee of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

GLOSSARY (CONTINUED)

"Share(s)"	ordinary share(s) of par value HK$0.1 each in the issued share capital of the Company
"Share Award Plan"	the share award plan adopted by the Company on 17 August 2018
"Share Option Scheme"	the share option scheme adopted by the Company on 21 June 2014
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"USA"	United States of America
"YTO Cargo"	YTO Cargo Airlines Co., Ltd.* 杭州圓通貨運航空有限公司, a company established in the PRC and a wholly owned subsidiary of YTO Express
"YTO Express"	圓通速遞股份有限公司 (YTO Express Group Co., Ltd.*), a joint stock limited liability company incorporated in the PRC, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600233), and a controlling Shareholder
"YTO Express Group"	YTO Express and its subsidiaries
"YTO Express Members"	YTO Express Group and associated companies excluding the Group
"Yuan Jun"	上海圓鈞國際貿易有限公司 (Shanghai Yuan Jun International Trading Company Limited*), a company established in the PRC and a wholly-owned subsidiary of YTO Express, and a controlling Shareholder
"Yuantong Jiaolong"	上海圓通蛟龍投資發展（集團）有限公司 (Shanghai Yuantong Jiaolong Investment Development (Group) Co., Ltd.*), a company established in the PRC and the controlling shareholder of YTO Express which directly held approximately 50.79% of the equity interest in the share capital of YTO Express, and a controlling Shareholder
"%"	per cent

* For identification purposes only