# 蜆殼電器控股有限公司

# SHELL ELECTRIC HOLDINGS LIMITED

## ANNUAL REPORT 2017

# CONTENTS

# *CORPORATE INFORMATION*

## DIRECTORS

Mr. YUNG Kwok Kee, Billy *(Group Chairman and Chief Executive)*
Madam HSU Vivian
Mr. CHOW Kai Chiu, David
Madam LI Pik Mui, Cindy

## BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
China Construction Bank (Asia) Corporation Limited

## COMPANY SECRETARY

Fair Wind Secretarial Services Limited

## REGISTERED OFFICE

Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda

## HONG KONG OFFICE

1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong

## AUDITOR

BDO Limited
*Certified Public Accountants*

## TRANSFER AGENT

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

## PROFIT FOR THE YEAR

The Group's audited consolidated profit attributable to the owners of the Company for the year ended 31 December 2017 amounted to HK$268 million. Basic earnings per share was HK51.2 cents.

## FINAL DIVIDEND

The board of directors recommends a final dividend of HK0.5 cent per share for the year ended 31 December 2017 (2016: HK0.5 cent per share). The proposed final dividend, subject to approval by the members of the Company (the "Members") at the annual general meeting to be held on Friday, 3 August 2018 (the "AGM"), would be payable on or before Friday, 19 October 2018 to the Members on the register of members of the Company on Tuesday, 14 August 2018.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 31 July 2018 to Friday, 3 August 2018 both days inclusive, during which period no transfer of shares will be effected for the purpose of ascertaining the Members' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Transfer Agent, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 30 July 2018.

The register of members of the Company will be closed from Friday, 10 August 2018 to Tuesday, 14 August 2018, both days inclusive, during which period no transfer of shares will be effected for the purpose of ascertaining the Members' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Transfer Agent, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 9 August 2018.

## BUSINESS REVIEW

### Contract Manufacturing – Electric and Electronics

ODM business for electric and electronics products reported significant growth in turnover and it is expected to maintain the growth momentum in 2018 as the additional orders for products such as Work Lights are expected.

### Contract Manufacturing – Optics and Imaging

The Optics and Imaging Contract Manufacturing business increased slightly in 2017 as compared to 2016. The sales is expected to increase steadily in 2018 as the old models will be replaced by more new models.

### Electric Fans

The Group's electric fan business contracted in 2017 primarily due to the prices of raw materials soared in Mainland China and the appreciation of Renminbi. Regardless the above, a double-digit growth was still recorded in the Asian and Middle East market.

It is expected that the prices of raw materials would remain high in 2018 but there is hope that the exchange rate for Renminbi may soften. The Group has already raised its selling prices to maintain its business growth as well as profit return.

### Vehicle Rental and Trading

Towards the end of 2016, the Guangzhou Government introduced regulations and impose tighter restrains on internet car-hailing services, as a result, illegal services in the market were curtailed, both turnover and profit of our taxi operation recovered in 2017 as compared to 2016.

During the year, the Group also started its car trading business in Guangzhou to provide customers with financing alternatives in purchasing private cars.

## Real Estate Investment and Development

### PRC

*Investment Properties*
The Group's investment properties portfolio at Citic Plaza, Tianhe, Guangzhou maintained an average occupancy of approximately 90% in 2017. The common public corridor area of these properties are being upgraded in phases. We expect the rental performance will improve after the renovation is complete.

*Development Properties*
In 2017, the site clearance work for the Guangzhou Road development project was completed. The Group has submitted a proposed construction plan to obtain "建設工程規劃許可証", and will proceed with the application for construction works commencement once the proposed plan is approved.

*Others*
Litigation proceedings for re-possession of the Group's industrial land located at Guangshan Road, Tianhe North, were still in progress.

### United States

During 2017, the booming San Francisco Bay Area economy continues to extend out to the Tri-Valley area. As a consequence, the Vineyard office complex was a beneficiary of rising rent and hence was able to lease out over 43,000 square feet to new tenants and renewed leases totaling close to 5,000 square feet. (Together, they represent about 21% of total occupancy) While total occupancy remains a work in progress, Management believes the trajectory is in the right direction. The Vineyard team is working to minimize operating expenses, market creatively and continue to improve the attractiveness of the property to tenants looking for back offices, annexes or flex spaces.

### Hong Kong

*Investment Properties*
To enhance our competitiveness and leasing quality, the Shell Industrial Building located at 12 Lee Chung Street, Chai Wan, has commenced an ongoing program to conduct property renovation and optimization by stages, in order to attract more quality tenants to improve our rental return.

*Development Properties*
Construction works for the Group's two residential projects in Sheung Shui and Shek Kong were under progress in 2017. Occupation permit for the Shek Kong project is targeted to be obtained in second half of 2018 and related marketing campaign will be launched in parallel along with finalization of the villa houses.

## Technology Investment

### Semiconductor Device Products

PFC Group has achieved stable growth in 2017. PFC Group continues to expand its market share in 2017 with growth coming from the consumer market including power supply, adapters, and chargers for TV, PC, laptop, and mobile phone in China and Taiwan. PFC Group has expanded its business into electric vehicle (EV) applications with several product approvals from key manufacturers.

### Certa Scale

In 2017, Certa Scale, an enterprise Kubernetes orchestration platform, began pilot tests at a major telecommunications provider in Germany as well as state owned enterprises, system integrators and solution providers in China. The pilot test results fed specific data, feature requests and needs back to R&D and engineering team.

## Financial Investment

In 2017, the Group's financial investment activities recorded profit of approximately HK$36 million and the market value of the Group's financial investment holdings as at 31 December 2017 amounted to about HK$396 million.

## REVENUE AND OPERATING RESULTS

Revenue from the Group for the year ended 31 December 2017 stood at HK$1,284 million, increased by HK$145 million or 12.7% year on year, resulting mainly from the improving contract manufacturing business.

Profit attributable to the owners of the company for the year ended 31 December 2017 increased from HK$39 million to HK$268 million representing an increase of HK$229 million or 588% over the corresponding period last year. The rise in profit was mainly attributable to (1) an increase of HK$32 million in gross profit; (ii) a gain on disposal of investment properties amounting to HK$54 million; (iii) an increase of HK$34 million on fair value gain on investment held for trading and (iv) an exceptional sum arising from realised exchange gain of HK$101 million regrading settlement of the intercompany balances due by a subsidiary to another group company during the year. The exchange differences arising in the past were dealt with in translation reserve as the intercompany balances form part of the net investment by in that subsidiary. Upon settlement of the intercompany balances during the year, such exchange gain accumulated in the translation reserve were reclassified from translation reserve to the income statement.

## FINANCIAL RESOURCES AND LIQUIDITY

The Group was able to maintain a satisfactory financial position with its financial resources and liquidity position consistently monitored and put in place in a healthy state throughout the year under review. Given the current economic situation, the Group would constantly re-evaluate its operational and investment status with a view to improving its cash flow and minimising its financial risks.

The Group utilized certain long-term loans totaling HK$633 million. Apart from the above, all banking facilities of the Group were arranged on short-term basis.

The banking facilities of the Group were subject to a mix of fixed interest rates and floating interest rates. Interest cover of the Group as at 31 December 2017, calculated as operating profit divided by total interest expenses net of interest income, stood at 42 times (31 December 2016: 18 times).

## FOREIGN EXCHANGE EXPOSURE

The Group's borrowings were mainly denominated in Hong Kong dollars and US dollars. The Group continued to conduct its sales mainly in US dollars and make payments either in US dollars or Hong Kong dollars. As the Group has staged on accumulation of investments in certain property leasing and land and property development projects in the PRC in the past few years, the hedging of the Renminbi and Hong Kong dollars has become the primary daily focus of the group.

## GEARING RATIO

The Group continued to adopt and follow its policy of maintaining a prudent gearing ratio. As at 31 December 2017, the Group recorded a 12.8% gearing ratio (31 December 2016: 22.1%), expressed as a percentage of total bank borrowings net of cash and pledged cash deposits to total equity of the Group.

## CAPITAL COMMITMENTS AND GUARANTEE

As at 31 December 2017, the Group had capital commitments totaling HK$204 million. In addition, the Company issued guarantees to the banks amounting to HK$762 million to facilitate certain subsidiaries in obtaining banking facilities.

## CAPITAL EXPENDITURE AND CHARGES ON ASSETS

The Group had capital expenditures totaling HK$61 million during the year under review.

As at 31 December 2017, the Group had charges on assets totaling HK$1,804 million mainly for securing mortgage loans.

The Group also pledged its 100% interest of the issued share capital of its subsidiary, China Dynasty Development Ltd. to a bank to secure a long-term loan granted to the Group.

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

During the current year, the principal activities of the Company are investment holding and property leasing. The principal activities carried out by the Company and its subsidiaries (collectively, the "Group") mainly comprise investment holding, manufacturing and marketing of electric fans, power discrete semiconductors as well as contract manufacturing of fusers, laser scanners, paper handling options and other electrical appliances and electronic components, property leasing, property investment and development, taxi and car rental and securities trading. Further discussion and analysis of these activities can be found in the Chairman's Statement. Details of the activities of its principal subsidiaries, associates and joint ventures are set out in note 56 to note 58 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement on page 11.

Subject to the approval of shareholders at the forthcoming annual general meeting, the board of directors of the Company (the "Board") now recommends the payment of a final dividend of HK0.5 cent per share to the shareholders on the register of members on Tuesday, 14 August 2018, thus giving rise to a final dividend distribution amounting to HK$2,617,000.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 39 to the financial statements.

## DONATIONS

During the year, the Group made charitable and other donations totalling HK$2,592,000 (2016: HK$2,665,000).

## PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

The Company has not purchased, sale or redeemed any of its shares during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## DIRECTORS

The directors of the Company during the year and up to date of this report are as follows:

Mr. Yung Kwok Kee, Billy
Madam Hsu Vivian
Mr. Chow Kai Chiu, David
Madam Li Pik Mui, Cindy

In accordance with Bye-law 84 of the Bye-laws of the Company, Mr. Chow Kai Chiu, David and Madam Li Pik Mui, Cindy shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Mr. Yung Kwok Kee, Billy and Mr. Chow Kai Chiu, David have personal interests in the share options granted under the share option scheme operated by a subsidiary of the Company, namely Netlink Assets Limited. Netlink Assets Limited operate the share option scheme for the purposes of providing incentives and rewards to eligible participants to contribute to the success of their operations. Further details of the share option schemes are disclosed in note 41 to the financial statements.

Save as disclosed above, at no time during the year was the Company, or any of its subsidiary, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## MAJOR SUPPLIERS AND CUSTOMERS

For the financial year ended 31 December 2017, the five largest customers accounted for approximately 62% of the total sales of the Group's turnover, of which 29% was attributable to the largest customer. Purchases from the Group's five largest suppliers accounted for less than 26% of the total purchases for the year.

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and their respective associates has any interest in a business or is interested in any business which competes or may compete either directly or indirectly with, or is similar to, the business of the Group as at 31 December 2017.

## PERMITTED INDEMNITY PROVISIONS

The Bye-law of the Company provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their offices, provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty.

Save as disclosed above, at no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, which were not contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during the year.

## AUDITOR

The financial statements for the year ended 31 December 2017 were audited by BDO Limited ("BDO"). A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO as auditor of the Company.

On behalf of the Board

**Mr. Yung Kwok Kee, Billy**
*Chairman*

Hong Kong, 25 June 2018

The Company is firmly committed to maintaining a high standard corporate governance practices and adhering to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

The board of directors of the Company (the "Board") will continuously review and improve the corporate governance practices and standards of the Company to ensure that business and decision making processes are regulated in a proper and prudent manner.

## BOARD OF DIRECTORS

The Board comprises of four members and supervises the management of the business and affairs of the Group. It has established self-regulatory and monitoring mechanisms to ensure that effective corporate governance is practiced. There is a clear division of responsibilities between the Board and the management. The Board is responsible for overseeing the Group's overall strategic plans, approval of major funding and investment proposals and reviewing the financial performance of the Group. The day-to-day management, administration and operation of the Group are delegated to the Committee of the Directors comprising of two members, namely Mr. Yung Kwok Kee, Billy and Mr. David Chow Kai Chiu.

The Board meets regularly and additional meetings are convened when deemed necessary by the Board. Board members are provided with complete, adequate and timely information to allow the Directors to fulfill their duties properly.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Yung Kwok Kee, Billy is the Group Chairman and the Chief Executive Officer. The Board considers that the structure is more conducive to the efficient formulation and implementation of the Company's strategies.

## NOMINATION OF DIRECTORS

The Board has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals.

In accordance with the provisions of the Bye-laws of the Company, any Director appointed by the Board during the year to fill casual vacancy shall retire and submit themselves for re-election immediately following his/her appointment at the first general meeting or at the next following annual general meeting of the Company in the case of an addition to the existing Board. Further, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

As such, the Company considers that sufficient measures have been taken to ensure that the formal and transparent process for the nomination and appointment of Directors is maintained.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Board is charged with the responsibility of determining the specific remuneration packages of all Directors and senior management, including benefits-in-kind, pension rights, and compensation payments. In developing remuneration policies and making recommendation as to the remuneration of the Directors and key executives, the Board takes into account the performance of the Group as well as those individual Directors and key executives.

## ACCOUNTABILITY AND AUDIT

The Directors have acknowledged by executing a management representation letter with the auditor that they bear the ultimate responsibility of preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 9.

The Board has reviewed with management and auditor of the Company the accounting principles and practices adopted by the Group and discussed the audited financial statements for the year ended 31 December 2017.

The Board has recommended that BDO Limited, Certified Public Accountants, be nominated for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

## RISK MANAGEMENT AND INTERNAL CONTROLS

Management has implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records maintained, appropriate legislation and regulations complied with, reliable financial information provided for management and publication purposes and investment and business risks affecting the Group identified and properly managed. The Company's internal audit department is responsible for monitoring adherence to policies on the safekeeping of assets and effectiveness and efficiency of operational procedures. Periodical audit plan is prepared in determining the audit focus and frequencies.

The Group adopts a risk management framework which comprises the following processes:

- Identify significant risk in the Group's operation environment and evaluate the impact of those risks on the Group's business;
- Develop necessary measures to manage those risks; and
- Monitor and review the effectiveness of such measures.

The Board has conducted a review of the effectiveness of the system of the risk management and internal control. Such review will consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The Board considered the risk management and internal control system that it is satisfactory.

Tel : +852 2218 8288
Fax: +852 2815 2239
**www.bdo.com.hk**

電話：+852 2218 8288
傳真：+852 2815 2239
**www.bdo.com.hk**

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

香港干諾道中111號
永安中心25樓

**TO THE SHAREHOLDERS OF SHELL ELECTRIC HOLDINGS LIMITED**
**蜆壳電器控股有限公司**
*(incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Shell Electric Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 11 to 88, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## 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.

## OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA, and for such internal control as the directors determined 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.

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

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

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

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

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

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

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

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

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

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

We communicate with the directors 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.

**BDO Limited**
*Certified Public Accountants*
**Lee Ming Wai**
Practising Certificate no. P05682

Hong Kong, 25 June 2018

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2017*

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Revenue** | 6 | **1,284,437** | 1,139,236 |
| Cost of sales and services provided | | **(935,427)** | (822,570) |
| Gross profit | | **349,010** | 316,666 |
| Other income | 6 | **63,790** | 52,137 |
| Distribution and selling expenses | | **(13,552)** | (9,087) |
| Administrative expenses | | **(205,822)** | (186,769) |
| Other operating expenses | | **(54,508)** | (64,801) |
| Other gains or losses | | | |
| Fair value gain on investment properties | 14 | **62,898** | 91,892 |
| Gain on disposal of investment properties | 14(a) | **53,874** | – |
| Fair value gain/(loss) on investments held for trading | | **30,774** | (3,363) |
| Fair value (loss)/gain on derivative financial instruments | | **(17,734)** | 2,405 |
| Gain/(Loss) on disposal of intangible assets | 18 | **48** | (416) |
| Gain arising from acquisition of subsidiaries | 43 | **–** | 479 |
| Gain arising from disposal of subsidiaries | 44(b) & (c) | **703** | 4,248 |
| Impairment loss on available-for-sale financial assets | 21 | **–** | (16,348) |
| Gain on disposal of available-for-sale financial assets | 21 | **5,857** | – |
| Net foreign exchange gain | 9(b) | **87,713** | 338 |
| Others | | **(5,415)** | (8,535) |
| **Operating profit** | | **357,636** | 178,846 |
| Finance costs | 8 | **(31,945)** | (30,774) |
| Share of results of associates | | **14,577** | (5,350) |
| Share of results of joint ventures | | **(4,690)** | 2,119 |
| **Profit before income tax** | 9 | **335,578** | 144,841 |
| Income tax expense | 10 | **(62,702)** | (105,058) |
| **Profit for the year** | | **272,876** | 39,783 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **267,834** | 38,951 |
| Non-controlling interests | | **5,042** | 832 |
| | | **272,876** | 39,783 |
| | | **HK Cents** | HK Cents |
| **Earnings per share** | 13 | | |
| – Basic | | **51.2** | 7.4 |
| – Diluted | | **51.2** | 7.4 |

# *CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*

*For the year ended 31 December 2017*

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Profit for the year** | | **272,876** | 39,783 |
| **Other comprehensive income** | | | |
| ***Items that may be reclassified subsequently to profit or loss*** | | | |
| Exchange difference arising from translation of overseas operations | | | |
| – subsidiaries | | **185,652** | (163,247) |
| – associate and joint ventures | | **8,351** | (8,744) |
| Reclassification adjustment of translation reserve recycled to profit or loss upon | | | |
| – deregistration of a subsidiary | | **–** | 58 |
| – disposal of subsidiaries | *44(c)* | **(223)** | – |
| – acquiring control of former joint ventures | *43* | **–** | 505 |
| – settlement of intercompany balances that formed part of the net investment in a foreign operation | *9(b)* | **(101,369)** | – |
| Available-for-sale financial assets | | | |
| – Changes in fair value | | **33,688** | (13,736) |
| – Reclassification adjustment for gain on disposal included in profit or loss | *21* | **(938)** | – |
| – Reclassification adjustment for impairment loss included in profit or loss | *21* | **–** | 16,348 |
| | | **125,161** | (168,816) |
| ***Items that will not be reclassified to profit or loss*** | | | |
| Revaluation of land and buildings classified as property, plant and equipment | *15* | | |
| – Changes in fair value | | **24,394** | 658 |
| – Income tax effect | | **(3,134)** | (800) |
| | | **21,260** | (142) |
| **Other comprehensive income for the year, net of tax** | | **146,421** | (168,958) |
| **Total comprehensive income for the year** | | **419,297** | (129,175) |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **410,623** | (128,538) |
| Non-controlling interests | | **8,674** | (637) |
| | | **419,297** | (129,175) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2017*

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Investment properties | 14 | **2,479,515** | 2,326,942 |
| Property, plant and equipment | 15 | **487,702** | 454,340 |
| Prepaid lease rental on land | 16 | **32,719** | 31,471 |
| Deposit paid | 27(e) | **63,380** | 63,380 |
| Prepayments for acquisition of property, plant and equipment | | **14,113** | 8,424 |
| Goodwill | 17 | **4,393** | 4,393 |
| Other intangible assets | 18 | **216,512** | 205,368 |
| Interests in associates | 19 | **167,997** | 145,661 |
| Interests in joint ventures | 20 | **916** | – |
| Available-for-sale financial assets | 21 | **321,273** | 256,458 |
| Other assets | 22 | **71,550** | 66,190 |
| Loans receivable | 23 | **50,804** | 52,083 |
| Finance lease receivables | 24 | **4,967** | 1,046 |
| Deferred tax assets | 37 | **956** | 201 |
| | | **3,916,797** | 3,615,957 |
| **Current assets** | | | |
| Inventories of properties | 25 | **729,477** | 653,369 |
| Other inventories | 26 | **140,655** | 146,119 |
| Trade and bills receivables, other receivables, prepayments and deposits | 27 | **300,341** | 264,075 |
| Prepaid lease rental on land | 16 | **985** | 928 |
| Loans receivable | 23 | **14,040** | 15,528 |
| Finance lease receivables | 24 | **2,609** | 805 |
| Amounts due from joint ventures | 28 | **11,039** | – |
| Investments held for trading | 29 | **75,290** | 118,289 |
| Tax prepaid | | **197** | 71 |
| Derivative financial instruments | 34 | **—** | 5,059 |
| Structured bank deposits | 30(c) | **—** | 102,623 |
| Restricted bank deposit | 30(b) | **23,463** | 21,609 |
| Cash and bank balances | 30(a) | **391,050** | 435,317 |
| | | **1,689,146** | 1,763,792 |
| **Current liabilities** | | | |
| Trade and other payables | 31 | **510,337** | 512,192 |
| Finance lease payable | 32 | **593** | — |
| Amounts due to associates | 28 | **122** | 121 |
| Amount due to a joint venture | 28 | **2,981** | – |
| Amount due to a related party | 33 | **291** | 291 |
| Amount due to a director | 33 | **41,087** | 38,460 |
| Government grants | | **327** | 344 |
| Taxation liabilities | | **181,036** | 166,057 |
| Bank borrowings | 35 | **738,984** | 596,898 |
| | | **1,475,758** | 1,314,363 |
| **Net current assets** | | **213,388** | 449,429 |
| **Total assets less current liabilities** | | **4,130,185** | 4,065,386 |

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Government grants | | **—** | 421 |
| Finance lease payable | 32 | **2,888** | — |
| Bank borrowings | 35 | **116,000** | 526,770 |
| Loan from non-controlling shareholder | 36 | **6,098** | 5,369 |
| Deferred tax liabilities | 37 | **574,314** | 522,551 |
| | | **699,300** | 1,055,111 |
| **Net assets** | | **3,430,885** | 3,010,275 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 39 | **82** | 82 |
| Reserves | 40 | **3,362,636** | 2,952,540 |
| Equity attributable to owners of the Company | | **3,362,718** | 2,952,622 |
| Non-controlling interests | 38 | **68,167** | 57,653 |
| **Total equity** | | **3,430,885** | 3,010,275 |

On behalf of the directors

| | |
|---|---|
| **YUNG KWOK KEE, BILLY** | **CHOW KAI CHIU, DAVID** |
| *Director* | *Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2017*

| | Equity attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Capital reserve HK$'000 | Available-for-sale financial assets revaluation reserve HK$'000 | Share option reserve HK$'000 | Translation reserve HK$'000 | Assets revaluation reserve HK$'000 | Dividend reserve HK$'000 | Statutory reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **At 1 January 2017** | **82** | **273,360** | **11,341** | **–** | **(41,616)** | **199,653** | **2,617** | **6,790** | **2,500,395** | **2,952,622** | **57,653** | **3,010,275** |
| Profit for the year | – | – | – | – | – | – | – | – | 267,834 | 267,834 | 5,042 | 272,876 |
| Exchange differences arising from translation of overseas operations | | | | | | | | | | | | |
| – subsidiaries | – | – | – | – | 182,020 | – | – | – | – | 182,020 | 3,632 | 185,652 |
| – associate and joint ventures | – | – | – | – | 8,351 | – | – | – | – | 8,351 | – | 8,351 |
| Release of translation reserve upon disposal of subsidiaries *(note 44(c))* | – | – | – | – | (223) | – | – | – | – | (223) | – | (223) |
| Release of translation reserve upon settlement of intercompany balances that formed part of the net investment in a foreign operation *(note 9(b))* | – | – | – | – | (101,369) | – | – | – | – | (101,369) | – | (101,369) |
| Fair value adjustment on revaluation of land and buildings, net of tax effect *(note 15)* | – | – | – | – | – | 21,260 | – | – | – | 21,260 | – | 21,260 |
| Fair value changes on available-for-sale financial assets | – | – | 33,688 | – | – | – | – | – | – | 33,688 | – | 33,688 |
| Reclassification adjustment for disposal of available-for-sale financial assets *(note 21)* | – | – | (938) | – | – | – | – | – | – | (938) | – | (938) |
| Total comprehensive income for the year | – | – | 32,750 | – | 88,779 | 21,260 | – | – | 267,834 | 410,623 | 8,674 | 419,297 |
| Dividend paid *(note 12(b))* | – | – | – | – | – | – | (2,617) | – | – | (2,617) | – | (2,617) |
| Share-based payment expense of PFC Device Share Options granted by a subsidiary *(note 41(c))* | – | – | – | 1,793 | – | – | – | – | – | 1,793 | 748 | 2,541 |
| Issue of shares by a subsidiary upon exercise of PFC Device Share Options *(note 41(c))* | – | – | – | (446) | – | – | – | – | 446 | – | 1,389 | 1,389 |
| Deemed disposal of partial interest in a subsidiary | – | – | – | (6) | (9) | – | – | – | 312 | 297 | (297) | – |
| Transfer between reserves | | | | | | | | | | | | |
| Proposed final dividend *(note 12(a))* | – | – | – | – | – | – | 2,617 | – | (2,617) | – | – | – |
| Vested PFC Device Share Options forfeited *(note 41(c))* | – | – | – | (51) | – | – | – | – | 51 | – | – | – |
| Difference in depreciation provided based on historical cost and revalued amount of land and buildings *(note 15)* | – | – | – | – | – | (8,048) | – | – | 8,048 | – | – | – |
| Reclassification of asset revaluation reserve to retained profits upon disposal of investment property which were previously classified as property, plant and equipment *(note 14(a))* | – | – | – | – | – | (3,033) | – | – | 3,033 | – | – | – |
| **At 31 December 2017** | **82** | **273,360** | **44,091** | **1,290** | **47,154** | **209,832** | **2,617** | **6,790** | **2,777,502** | **3,362,718** | **68,167** | **3,430,885** |
| **At 1 January 2016** | 82 | 273,360 | 8,729 | 654 | 128,977 | 207,675 | 2,617 | 6,790 | 2,428,788 | 3,057,672 | 8,670 | 3,066,342 |
| Profit for the year | – | – | – | – | – | – | – | – | 38,951 | 38,951 | 832 | 39,783 |
| Exchange differences arising from translation of overseas operations | | | | | | | | | | | | |
| – subsidiaries | – | – | – | – | (161,778) | – | – | – | – | (161,778) | (1,469) | (163,247) |
| – associate and joint ventures | – | – | – | – | (8,744) | – | – | – | – | (8,744) | – | (8,744) |
| Reclassification adjustment of translation reserve recycled to profit or loss upon deregistration of a subsidiary | – | – | – | – | 58 | – | – | – | – | 58 | – | 58 |
| Reclassification adjustment of translation reserve recycled to profit or loss upon acquiring control of former joint ventures *(note 43)* | – | – | – | – | 505 | – | – | – | – | 505 | – | 505 |
| Fair value adjustment on revaluation of land and buildings, net of tax effect *(note 15)* | – | – | – | – | – | (142) | – | – | – | (142) | – | (142) |
| Fair value changes on available-for-sale financial assets | – | – | (13,736) | – | – | – | – | – | – | (13,736) | – | (13,736) |
| Reclassification adjustment of impairment loss on available-for-sale financial assets *(note 21)* | – | – | 16,348 | – | – | – | – | – | – | 16,348 | – | 16,348 |
| Total comprehensive income for the year | – | – | 2,612 | – | (169,959) | (142) | – | – | 38,951 | (128,538) | (637) | (129,175) |
| Dividend paid *(note 12(b))* | – | – | – | – | – | – | (2,617) | – | – | (2,617) | – | (2,617) |
| Issue of shares by a subsidiary upon exercise of PFC Share Options *(note 41(b))* | – | – | – | (654) | – | – | – | – | 654 | – | 4,292 | 4,292 |
| Acceleration of vesting of PFC Share Options *(note 41(b))* | – | – | – | 16 | – | – | – | – | – | 16 | – | 16 |
| Deemed disposal of partial interest in a subsidiary *(note 44(a))* | – | – | – | – | (634) | – | – | – | 26,723 | 26,089 | 45,328 | 71,417 |
| Transfer between reserves | | | | | | | | | | | | |
| Proposed final dividend *(note 12(a))* | – | – | – | – | – | – | 2,617 | – | (2,617) | – | – | – |
| Termination of PFC Option Plan *(note 41(b))* | – | – | – | (16) | – | – | – | – | 16 | – | – | – |
| Difference in depreciation provided based on historical cost and revalued amount of land and buildings *(note 15)* | – | – | – | – | – | (7,880) | – | – | 7,880 | – | – | – |
| **At 31 December 2016** | 82 | 273,360 | 11,341 | – | (41,616) | 199,653 | 2,617 | 6,790 | 2,500,395 | 2,952,622 | 57,653 | 3,010,275 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2017*

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before income tax | | **335,578** | 144,841 |
| Adjustments for: | | | |
| Share of results of associates | | **(14,577)** | 5,350 |
| Share of results of joint ventures | | **4,690** | (2,119) |
| Depreciation and amortisation | | **52,427** | 52,917 |
| Government grants | | **(475)** | (918) |
| Share-based payment expense | | **2,541** | 16 |
| Fair value gain on investment properties | | **(62,898)** | (91,892) |
| Unrealised fair value change of investments held for trading | | **(13,743)** | (1,721) |
| Unrealised fair value change of derivative financial instruments | | **—** | (5,059) |
| Impairment loss on available-for-sale financial assets | | **—** | 16,348 |
| Reversal of impairment on inventories of properties | | **(5,045)** | (19,140) |
| Impairment loss on loans and receivables | | **2,497** | 1,765 |
| Write-off of loans and receivables | | **250** | 923 |
| Write-off of other inventories | | **—** | 3,870 |
| Write-off of property, plant and equipment | | **3,744** | 3,890 |
| (Reversal of allowance)/Allowance for other inventories | | **(6,358)** | 9,123 |
| Loss on disposal of property, plant and equipment | | **1,431** | 377 |
| Gain on disposal of available-for-sale financial assets | | **(5,857)** | – |
| Gain on disposal of investment properties | | **(53,874)** | – |
| (Gain)/loss on disposal of intangible assets | | **(48)** | 416 |
| Gain arising from disposal of subsidiaries | | **(703)** | (4,248) |
| Gain arising from acquisition of subsidiaries | | **—** | (479) |
| Interest income | | **(18,415)** | (15,612) |
| Interest expenses | | **26,890** | 25,749 |
| Guarantee fee | | **4,913** | 5,025 |
| Exchange differences | | **(98,595)** | (3,707) |
| **Operating cash flows before movements in working capital** | | **154,373** | 125,715 |
| Increase in inventories of properties | | **(38,503)** | (152,943) |
| Decrease/(increase) in other inventories | | **21,110** | (21,055) |
| Increase in trade and bills receivables, other receivables, prepayments and deposits | | **(35,683)** | (29,214) |
| Decrease in amounts due from associates | | **—** | 478 |
| (Increase)/decrease in amounts due from joint ventures | | **(12,177)** | 47 |
| Decrease in amounts due from investees | | **370** | 184 |
| Increase in finance lease receivables | | **(5,269)** | (311) |
| Decrease in investments held for trading | | **56,742** | 30,958 |
| Changes in derivative financial instruments | | **5,059** | (11,147) |
| (Decrease)/Increase in trade and other payables | | **(5,068)** | 5,008 |
| **Cash generated from/(used) in operations** | | **140,954** | (52,280) |
| Income tax paid | | **(46,979)** | (28,529) |
| **Net cash from/(used in) operating activities** | | **93,975** | (80,809) |

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Proceeds from disposal of available-for-sale financial assets | | **86,109** | – |
| Proceeds from disposal of intangible assets | | **2,206** | 1,550 |
| Proceeds from disposal of investment properties | | **82,023** | – |
| Proceeds from disposal of property, plant and equipment | | **923** | 557 |
| Net cash (outflows)/inflows from disposal of subsidiaries | 44(b)&(c) | **(1,696)** | 56,829 |
| Net cash inflows from deemed disposal of partial interest in a subsidiary | 44(a) | **–** | 71,417 |
| Payment for acquisition of subsidiaries | 43 | **–** | 15,167 |
| Interest element of finance lease receivables | | **107** | 98 |
| Interest received | | **20,545** | 14,529 |
| Purchase of antiques and artworks | | **(5,360)** | – |
| Purchase of property, plant and equipment | | **(48,157)** | (36,091) |
| Purchase of investment properties | | **(1,450)** | (2,981) |
| Payment for interest in prepaid lease rental on land | | **–** | (9,166) |
| Decrease/(increase) in loans receivable, net | | **3,675** | (17,430) |
| Purchase of available-for-sale of financial assets | | **(102,933)** | (55,859) |
| Decrease in bank deposits maturing beyond three months | | **34,732** | 7,783 |
| Decrease/(increase) in restricted bank deposit | | **5,343** | (569) |
| Decrease in structured bank deposits | | **104,058** | 61,373 |
| Capital injection in a joint venture | | **(1,752)** | – |
| **Net cash from investing activities** | | **178,373** | 107,207 |
| **Financing activities** | 45(b) | | |
| New bank and other borrowings | | **501,042** | 725,026 |
| Repayment of bank borrowings | | **(770,529)** | (622,819) |
| Dividends paid | | **(2,617)** | (2,617) |
| Interest paid | | **(26,876)** | (25,540) |
| Interest element of finance lease payable | | **(14)** | – |
| Advances from a director | | **2,739** | – |
| Repayment to a director | | **(5,025)** | (10,049) |
| Capital element of finance lease payable | | **(1,845)** | – |
| Capital contribution from non-controlling interests | | **1,389** | 4,292 |
| **Net cash (used in)/from financing activities** | | **(301,736)** | 68,293 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(29,388)** | 94,691 |
| **Cash and cash equivalents at 1 January** | | **400,585** | 320,853 |
| **Effect of foreign exchange rate change** | | **19,853** | (14,959) |
| **Cash and cash equivalents at 31 December** | | **391,050** | 400,585 |
| **Analysis of the balances of cash and cash equivalents** | | | |
| Cash and bank balances as stated in consolidated statement of financial position | | **391,050** | 435,317 |
| Less: short-term deposits with maturity beyond three months but within one year | 30(a) | **–** | (34,732) |
| **Cash and cash equivalents at 31 December** | | **391,050** | 400,585 |

## 1. GENERAL INFORMATION

Shell Electric Holdings Limited (the "Company") was incorporated in Bermuda with limited liability. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda and the address of its principal place of business is 1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan Industrial District, Hong Kong.

The principal activities of the Company are investment holding and property leasing. The principal activities carried out by the Company and its subsidiaries (hereinafter collectively referred as the "Group") mainly comprise investment holding, manufacturing and marketing of electric fans and power discrete semiconductors, contract manufacturing of fusers, laser scanners, paper handling options and electrical appliances, property leasing, property investment and development, taxi and car rental and securities trading.

The shares of the Company's subsidiary, PFC Device Inc., engaging in manufacturing and sales of power discrete semiconductors business were listed on GEM of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 7 October 2016.

The financial statements on pages 11 to 88 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial statements for the year ended 31 December 2017 were approved and authorised for issue by the directors on 25 June 2018.

## 2. ADOPTION OF NEW OR REVISED HKFRSS

### (a) Adoption of new or revised HKFRSs – effective on 1 January 2017

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2017:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Annual Improvements to HKFRSs 2014 – 2016 Cycle | Amendments to HKFRS 12 Disclosure of Interests in Other Entities |

#### *Amendments to HKAS 7 Disclosure Initiative*

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in note 45 – notes to the consolidated statement of cash flows.

#### *Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the above amendments has no material impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

#### *Annual Improvements to HKFRSs 2014 – 2016 Cycle Amendments to HKFRS 12 Disclosure of Interests in Other Entities*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12 Disclosure of Interests in Other Entities to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the Group does not have any interests in other entities being classified as held for sale or discontinued operations in accordance with HKFRS 5.

## 2. ADOPTION OF NEW OR REVISED HKFRSS *(Continued)*

### (b) New or revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| HKFRS 16 | Leases[2] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-Based Payment Transaction[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[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 HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1] |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[2] |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKFRS 3 Business Combinations; HKFRS 11 Joint Arrangements; HKAS12 Income Taxes; and HKAS 23 Borrowing Costs[2] |

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred or removed. Early application of the amendments continues to be permitted

The directors anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Those new or revised HKFRSs that may have a material impact on the Group's financial statements are set out below.

#### *HKFRS 9 Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at fair value through profit or loss replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9.

Debt instruments classified as loans receivable, finance lease receivables, trade and bills receivables, other receivables and deposits and amounts due from joint ventures, structured bank deposits, restricted bank deposit and cash and bank balances carried at amortised cost are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

In respect of equity securities classified as available-for-sale financial assets carried at fair value as disclosed in note 21, these securities qualified for designation as measured at fair value through other comprehensive income under HKFRS 9, however, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9 on 1 January 2018, available-for-sale financial assets revaluation reserve of HK$44,091,000 related to these available-for-sale financial assets will be transferred to retained profits.

## 2. ADOPTION OF NEW OR REVISED HKFRSS *(Continued)*

### (b) New or revised HKFRSs that have been issued but are not yet effective *(Continued)*

*HKFRS 9 Financial Instruments (Continued)*

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

Except for the above, and that expected credit loss model which may result in earlier provision of credit losses, the directors do not anticipate that the application of HKFRS 9 will have a material impact on the Group's financial statements

*HKFRS 15 Revenue from Contracts with Customers and amendments to HKFRS 15 Revenue from Contracts with Customers (Clarifications to HKFRS 15)*

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

In 2016, the HKICPA issued clarifications to HKFRS 15. The amendments to HKFRS 15 include clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors do not anticipate that the application will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

*HKFRS 16 Leases*

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

## 2. ADOPTION OF NEW OR REVISED HKFRSS *(Continued)*

### (b) New or revised HKFRSs that have been issued but are not yet effective *(Continued)*

*HKFRS 16 Leases (Continued)*

As set out in note 48, the Group leases manufacturing plants and office properties under operating lease arrangements, which is currently accounted for under the accounting policy as set out in note 4.11. As at 31 December 2017, the total operating lease commitment in respect of these lease arrangements amounted to approximately HK$4,717,000. The directors have performed a preliminary assessment and consider that these arrangements will meet the definition of a lease under HKFRS 16, and hence, the Group will recognise a right-of-use asset and a corresponding lease liability in respect of these lease arrangements upon the application of HKFRS 16 unless they qualify for low value or short-term leases. In the consolidated income statement, as the leases will be capitalised in future, operating lease expenses will no longer be recorded for these leases while depreciation and interest expense will increase due to the depreciation charge on the right-of-use asset and the interest expense on the lease liability. The new standard is not expected to apply until the financial year ending 31 December 2019 and the impact on the Group's financial position and results upon the adoption of HKFRS 16 on those leases are not expected to be material. In addition, more quantitative and qualitative disclosures about the leases will be made following the requirements of HKFRS 16.

## 3. BASIS OF PREPARATION

### 3.1 Basis of measurement

These financial statements have been prepared under the historical cost basis except for investment properties, land and buildings classified as property, plant and equipment and certain financial instruments which are measured at fair value. Disposal groups and non-current assets held for sale (other than investment properties) are stated at the lower of their carrying amounts and fair values less costs to sell. The measurement bases are fully described in the accounting policies below.

Accounting estimates and assumptions have been used in preparing these financial statements. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

### 3.2 Functional and presentation currency

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

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Business combination and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 4.2 below) made up to 31 December each year. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. All inter-company transactions, balances and unrealised gains and losses on transactions within the Group are eliminated on consolidation. Unrealised losses resulting from inter-company transaction are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. If the business combination is achieved in stage, the Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments, in which case the costs are deducted from equity.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.1 Business combination and basis of consolidation *(Continued)*

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to the fair value of the contingent consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in accordance with HKAS 39 either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Goodwill arising on business combination is measured according to the policies in note 4.4.

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

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, the profit or loss on disposal 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 previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest, and also the cumulative translation differences recorded in equity. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

### 4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present:

– power over the investee;

– exposure, or rights, to variable returns from the investee; and

– the ability to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

### 4.3 Associates and joint arrangements

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

– joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

– joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.3 Associates and joint arrangements *(Continued)*

In assessing the classification of interests in joint arrangements, the Group considers:

– the structure of the joint arrangement;

– the legal form of joint arrangements structured through a separate vehicle;

– the contractual terms of the joint arrangement agreement; and

– any other facts and circumstances (including any other contractual arrangements).

Associates and joint ventures are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' and joint ventures' net assets except that losses in excess of the Group's interest in the associates and joint venture are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates and joint ventures are recognised only to the extent of unrelated investors' interests in the associate and joint venture. The investor's share in the associates and joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the associate and joint venture. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for investment in an associate and a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in associate and joint venture. Where there is objective evidence that the investment in an associate and a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Joint operations are accounted for by recognising the Group's share of assets, liabilities, revenue and expenses in accordance wit its contractually conferred rights and obligations.

### 4.4 Goodwill

Goodwill arising from the acquisition of subsidiaries, associates and joint ventures represents the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the Group's interest in the fair value of the identifiable assets acquired and liabilities including contingent liabilities as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated statement of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses. In case of associates and joint ventures, goodwill is included in the carrying amount of the interests in associates and joint ventures respectively, rather than recognised as a separate asset on the consolidated statement of financial position.

Goodwill is reviewed for impairment annually at the end of the reporting period or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired (note 4.12). On subsequent disposal of a subsidiary, associate or joint ventures, the carrying amount of goodwill relating to the entity sold is included in determining the amount of gain or loss on disposal.

### 4.5 Bargain purchases in business combinations

Any excess of the Group's interest in the fair value of the acquirees' net identifiable assets, liabilities and contingent liabilities over the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree is recognised immediately in profit or loss.

### 4.6 Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose.

Investment property is initially stated at cost, including directly attributable costs, and subsequently stated at fair value as determined by external professional valuers to reflect the prevailing market conditions at the end of each reporting period. Any gain or loss resulting from either a change in the fair value or disposal of an investment property is immediately recognised in profit or loss. Rental income from investment properties is accounted for as described in note 4.28(iv).

# 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 4.7 Property, plant and equipment

Except for freehold land which is not depreciated, property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses (note 4.12). When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 (note 4.8).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Land and buildings are stated at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. The revaluation surplus is recognised in equity. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under assets revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the assets revaluation reserve.

Depreciation is provided to write off the cost or valuation of each item of property, plant and equipment less its residual value, if applicable, over its estimated useful lives on a straight-line basis at the following rates per annum:

| **Category of property, plant and equipment** | **Annual rates** |
|---|---|
| Freehold land | Not depreciated |
| Land and buildings *(note 4.11)* | 2% to 5% |
| Plant, machinery, tools, moulds and equipment | 10% to 20% |
| Furniture, fixtures and office equipment | 10% to 33.33% |
| Motor vehicles (including taxi) | 20% to 25% |

An annual transfer from assets revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued amount of an asset and the depreciation based on the asset's original cost.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in profit or loss. When land and buildings are derecognised upon disposal, the relevant portion of the revaluation surplus will be directly transferred to retained profits.

## 4.8 Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups. Non-current assets and disposal groups (other than investment properties) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

## 4.9 Intangible assets (Other than goodwill)

Intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are amortised over the economic useful life and assessed for impairment (note 4.12) whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but reviewed for impairment at least annually either individually or at cash-generating unit level. The useful life of an intangible asset with indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

### *Taxi licences*

Cost incurred in the acquisition of permanent taxi operating licences, which have indefinite useful lives, are carried at cost less any impairment losses and are not amortised.

Taxi licences which are granted for free are amortised over their estimated useful life of five years.

# 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 4.9 Intangible assets (Other than goodwill) *(Continued)*

### *Small passenger car quota*

Cost incurred in the acquisition of small passenger car quotas, which have indefinite useful lives, are carried at cost less any impairment losses and are not amortised.

### *Patent, trademark and copyright*

Separately acquired patent is shown at historical cost less any impairment losses. Patent, trademark and copyright acquired in a business combination is recognised at fair value at the acquisition date. Patent, trademark and copyright have finite useful lives and are carried at cost less accumulated amortisation less any impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patent, trademark and copyright over their estimated useful lives of five to eight years.

### *Research and development costs*

Expenditure on the research phase of internal projects and development costs not satisfying the capitalisation criteria are recognised in profit or loss as incurred.

## 4.10 Other assets

Other assets represent antiques and art works held for long-term investment purposes and are stated at cost less accumulated impairment losses.

## 4.11 Leases

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

### The Group as lessor

Assets leased by the Group under operating leases are included in non-current assets, and rental receivable under the operating leases are credited to profit or loss on a straight-line basis over the lease terms.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease 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.

### The Group as lessee

Rentals payable under operating leases, net of any incentives received or receivable, are charged to profit or loss on a straight-line basis over the lease terms. Prepaid lease rental on land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in cost of land and buildings as a finance lease in property, plant and equipment (note 4.7).

When the Group's interests in leasehold land and buildings are in the course of development for investment purpose, the leasehold land component is included in properties under development. During the development period of such properties, the amortisation charge of the prepaid land lease is capitalised as part of the building costs but charged to profit or loss on completion of development of such properties.

## 4.12 Impairment of non-financial assets

Goodwill, other intangible assets, property, plant and equipment, prepaid lease rental on land, interests in subsidiaries, associates and joint ventures and other assets are subject to impairment testing. Goodwill, other intangible assets and other assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, 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 assessment of the time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.12 Impairment of non-financial assets *(Continued)*

Impairment losses recognised for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods including impairment losses recognised in an interim period. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised.

A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

### 4.13 Investments and other financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at each reporting period.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract when the analysis shows that the economic characteristics and the risks of the embedded derivatives are not closely related to those of the host contract.

Regular way purchases and sales of financial assets are recognised and derecognised on trade date. Regular way purchases or sales are purchases or sales of financial assets under a contract whose terms require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss which are measured initially at fair value. Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading which are classified as "Investments held for trading" in the consolidated statement of financial position and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss in the period in which they arise. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividends or interests earned on these financial assets. Interests or dividends earned on these financial assets are recognised in profit or loss in accordance with the policies set out in note 4.28.

# 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 4.13 Investments and other financial assets *(Continued)*

### Loans and receivables

Loans and receivables including amounts due from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired as well as through the amortisation process.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as any other categories of financial assets. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income and accumulated in equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in profit or loss and removed from equity. Interests or dividends earned on these financial assets are recognised in profit or loss in accordance with the policies set out in note 4.28.

The fair value of available-for-sale monetary assets denominated in foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

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

### Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

## 4.14 Impairment of financial assets

At the end of each reporting period, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that come to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data include but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.14 Impairment of financial assets (Continued)

If any such evidence exists, the impairment loss is measured and recognised as follows:

#### Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of impairment loss is recognised in profit or loss of the period in which the impairment occurs. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

#### Available-for-sale financial assets

If there is objective evidence that an available-for-sale financial asset is impaired, an amount comprising the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss on that asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss. Impairment losses in respect of debt instruments are reversed through profit or loss if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised.

#### Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted investment that is not carried at fair value has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

### 4.15 Inventory of properties

Inventory of properties represent properties under development. Properties under development are investments in land and buildings on which construction work has not been completed and which, upon completion, management intends to hold for sale purposes. Inventory of properties are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated cost to completion and estimated selling expenses. The costs of inventory of properties consist of land held under operating lease (note 4.11), development expenditures including construction costs, borrowing costs and other direct costs attributable to the development of such properties.

### 4.16 Other inventories

Other inventories are stated at the lower of cost, computed using weighted average method, and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

# 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 4.17 Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. In the separate financial statements of the group entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the rates ruling at the end of the reporting period are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities of the Group are currencies other than HK$. For the purpose of the consolidated financial statements, assets and liabilities of those entities at the end of the reporting period are translated into HK$ at exchange rate prevailing at the end of the reporting period. Income and expense items are translated into HK$ at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the Group's translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognised in the translation reserve.

## 4.18 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

## 4.19 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of the reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 I*nvestment Property*. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the end of the reporting period. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

### 4.21 Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (note 4.20). A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

#### Financial liabilities at amortised cost

Borrowings and trade and other payables including amounts due to related parties are financial liabilities at amortised cost which are recognised initially at fair value (net of transaction costs incurred for borrowings) and subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through amortisation process.

#### Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

### 4.22 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

### 4.23 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

#### Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

#### Termination benefits

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.24 Share-based payment transactions

The Group operates equity-settled share-based compensation plans for remuneration of its employees and others providing similar services. All employee services received in exchange for the grant of financial instruments, for example, share options are measured at their fair values. The cost of equity-settled share-based compensation is measured by reference to the fair value of the equity instrument at the date on which they are granted. In determining the fair value, no account is taken of any non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based compensation is ultimately recognised as an expense in profit or loss unless it qualifies for recognition as asset with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The fair value of the share options granted is recognised in profit or loss with a corresponding increase in share option reserve. Upon exercise of the share options, the relevant amount in the share option reserve is transferred to share premium or retained profits as appropriate. In case the vested share options are forfeited, the amount in the share option reserve is released directly to retained profits.

### 4.25 Provisions and contingent liabilities

Provision is recognised when the Group has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. When the effect of discounting is material, provision is stated at the present value of the expenditure expected to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss. All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

### 4.26 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### 4.27 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends are approved and declared, they are recognised as a liability. Interim dividends are simultaneously proposed and declared and consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

# 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 4.28 Recognition of revenue and other income

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

(i) Sales of goods are recognised as revenue when goods are delivered and title has been passed.

(ii) Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

(iii) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(iv) Rental income is recognised on a straight-line basis over the periods of the respective tenancies.

(v) Taxi and car rental income is recognised in accordance with the substance of the licence agreement when the holders' right to receive payment has been established and the relevant services are delivered. Income received in advance which is attributable to the whole licensing contract arrangement is recognised as deferred income under current liabilities and amortised over the period of the licence contract.

(vi) Handling fee income and service income is recognised on an appropriate basis over the relevant period in which the services are rendered.

## 4.29 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. When the grants relate to cost items, they are recognised as income on a systematic basis over the periods that the related costs for which the grants are intended to compensate are recognised as expenses. Government grants related to income are presented under other income.

When the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset. The grant is recognised as deferred income which is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

## 4.30 Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

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

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

  (ii) has significant influence over the Group; or

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

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

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

  (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

  (iii) both entities are joint ventures of the same third party;

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

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 4.30 Related parties *(Continued)*

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

### 4.31 Business information

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

## 5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgments used in preparing financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 5.1 Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### Fair value of properties

As disclosed in notes 14 and 15, the fair value of the investment properties and land and buildings classified as property, plant and equipment as at the end of the reporting period were estimated by the directors with reference to property valuation conducted by independent professional valuers. Such valuations were based on certain assumptions which are subject to uncertainty and might differ significantly from the actual results. In making the judgment, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of the reporting period.

Please refer to notes 14 and 15 for more detailed information in relation to the fair value measurement of the investment properties and land and buildings.

#### Fair value of unlisted equity investments

The fair value of the unlisted equity investments has been estimated by management with reference to valuations conducted by independent professional valuer. The valuation requires the Group to make estimates and assumptions that are subject to uncertainty. The fair value of the unlisted equity investments as at 31 December 2017 was HK$142,360,000 (2016: HK$133,813,000) (note 21).

#### Impairment of non-financial assets

The Group reviews at least annually and assesses whether goodwill, taxi licence and small passenger car quotas with indefinite useful lives have suffered any impairment. The recoverable amounts of these cash-generating units have been determined based on value-in-use calculation which requires the use of estimates including expected future cash flows of the cash-generating units and discount rate adopted to calculate the present value of those cash flows. Details about the estimates used in assessing impairment for the goodwill and these intangible assets are set out in notes 17 and 18 respectively.

# 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

## 5.1 Key sources of estimation uncertainty *(Continued)*

### Allowance for loans and receivables

The policy on allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of loans and receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including current creditworthiness and the past collection history of each customer or debtor. If the financial conditions of the customers or debtors of the Group deteriorate thus resulting in impairment as to their ability to make payments, additional allowances may be required.

### Allowance for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of judgment is required in determining such allowance. If conditions which have an impact on the net realisable value of inventories deteriorate, additional allowances may be required.

### Estimation of net realisable value of inventories of properties

Management reviews the recoverable amount of inventories of properties at the end of each reporting period. The recoverable amount is the estimated selling price of the properties less estimated costs to completion and estimated costs to sell. Management has made significant estimation in determining the recoverable amount. For the year ended 31 December 2017, the Group has recognised a reversal of impairment loss on inventories of properties amounting to HK$5,045,000 (2016: HK$19,140,000) (note 9).

### Estimates of current tax and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation, the timing of payment of the related taxation and the implementation of these taxes varies amongst various cities in the People's Republic of China (the "PRC"). The Group recognised income tax and other taxes based on management's best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expense in the period in which the tax calculations are finalised with the local tax authorities.

## 5.2 Critical judgments in applying accounting policies

### Distinction between investment properties and owner-occupied properties

Some properties of the Group comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in marking its judgment.

### Joint arrangement

As at 31 December 2017, the Group held equity interest and voting right of a joint arrangement (note 20). The contractual agreement entered into by the Group and other equity partners confer joint control over the relevant activities of the joint arrangement to the Group and one of the equity partners. In addition, the joint arrangement is structured as a limited company and provides the Group and the parties to the arrangement with rights to the net assets of the limited company under the arrangement. Therefore, based on the judgment of the management, the arrangement is classified as a joint venture.

## 6. REVENUE AND OTHER INCOME

The principal activities of the Group are disclosed in note 1. Revenue from the Group's principal activities recognised during the year is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sales of goods | **1,115,557** | 960,225 |
| Taxi and car rental income | **70,825** | 77,208 |
| Property rental income | **98,055** | 101,803 |
| **Total revenue** | **1,284,437** | 1,139,236 |

Other income of the Group recognised during the year is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest income on: | | |
| Bank deposits | **5,471** | 4,469 |
| Interest element of finance lease as lessor *(note 24)* | **107** | 98 |
| Others, including loans receivable | **12,837** | 11,045 |
| Total interest income | **18,415** | 15,612 |
| Dividends from financial assets at fair value through profit or loss | **1,383** | 2,281 |
| Dividends from available-for-sale financial assets | **7,951** | 7,542 |
| Other rental income | **1,704** | 2,215 |
| Handling fee income | **3,453** | 3,479 |
| Recharge of material and freight cost to customers | **7,805** | 7,491 |
| Product engineering service to customers | **2,040** | 2,069 |
| Government grants (note) | **6,900** | 4,038 |
| Management fee received from joint ventures | **7,450** | – |
| Sundry income | **6,689** | 7,410 |
| | **63,790** | 52,137 |

Note: During the current year, the Group recognised government grant amounting to HK$6,900,000, which mainly represents government subsidies received from municipal and district levels of the PRC Government as reward to recognise the Group's contributions in enhancing the level of industry development in the district, rewards for innovation of high-tech products and rewards for the floatation of the Group's power discrete semiconductors business which is in line with the strategies advocated by the municipal and district government. There were no unfulfilled conditions and other contingencies attached to these subsidies.

## 7. BUSINESS INFORMATION

The following business segments are reported in a manner consistent with the way in which information is reported internally to the Group's most senior management for the purposes of resource allocation and assessment of segment performance.

| | |
|---|---|
| Electrical appliances | This segment designs, manufactures and trades electrical appliances. Electrical appliances include electric fans, vacuum cleaners, LED lighting products, paper handling options, fuser, laser and scanner. The Group's manufacturing facilities are located in the PRC and products are mainly sold to customers in the PRC and overseas such as North America and European countries. |
| Power discrete semiconductors | This segment manufactures and trades power discrete semiconductors. The manufacturing facilities are located in the PRC and products are mainly sold to customers in the PRC and Taiwan. |
| Property leasing | This segment leases industrial, commercial and residential properties in Hong Kong, other regions of the PRC and the United States (the "USA") to generate rental income and gain from appreciation in the properties' values in long-term. Part of the business is carried out through an associate. |
| Property investment and development | This segment constructs commercial and residential properties in Hong Kong and other regions of the PRC for external customers. |
| Securities investment | This segment mainly invests in debt and equity securities and other instruments to generate gain from appreciation in those securities and other instruments. |
| Taxi and car rental | This segment carries on taxi and car rental operations in the PRC and generates rental income. During 2017, the Group has started the sales of car business and make contribution to this segment in 2017. |
| Other segments | These comprise trading of computer software which generate revenue from sales of goods, as well as direct investments which derive gain from holding investments in enterprises engaging in high-tech business. |

Revenue and expenses are allocated to the business segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment profit/loss includes the Group's share of profit/loss arising from the activities of the Group's associates and joint ventures. Segment profit/loss excludes corporate income and expenses from the Group's profit/loss before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarters which are not allocated to the business segments. Each of the business segments is managed separately as the resources requirement of each of them is different.

Segment assets include all assets with the exception of tax assets and corporate assets, including certain available-for-sale financial assets, bank balances and cash and other assets which are not directly attributable to the business activities of business segments as these assets are managed on a group basis.

Segment liabilities include trade and other payables, accrued liabilities, amounts due to related parties, bank borrowings and other liabilities directly attributable to the business activities of business segments and exclude tax liabilities, corporate liabilities and liabilities that are managed on a group basis.

## 7. BUSINESS INFORMATION *(Continued)*

Information regarding the Group's business segments including revenue, profit or loss, assets and liabilities by business segments and other information about the business segments are as follows:

| | Electrical appliances HK$'000 | Power discrete semiconductors HK$'000 | Property leasing HK$'000 | Property investment and development HK$'000 | Securities investment HK$'000 | Taxi and car rental HK$'000 | Other segments HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2017** | | | | | | | | |
| Revenue | 873,781 | 215,059 | 98,055 | – | – | 79,921 | 17,621 | 1,284,437 |
| Profit/(Loss) | 96,061 | 7,783 | 190,013 | (7,251) | 35,965 | 26,736 | (43,413) | 305,894 |
| Exchange gain on settlement of intercompany balances *(note 9(b))* | | | | | | | | 101,369 |
| Corporate income | | | | | | | | 4,573 |
| Corporate expenses | | | | | | | | (76,258) |
| Profit before income tax | | | | | | | | 335,578 |
| **As at 31 December 2017** | | | | | | | | |
| Assets | 614,627 | 249,037 | 2,767,963 | 743,225 | 424,613 | 301,198 | 70,337 | 5,171,000 |
| Property, plant and equipment | | | | | | | | 160,489 |
| Other assets | | | | | | | | 71,550 |
| Available-for-sale financial assets | | | | | | | | 380 |
| Tax assets | | | | | | | | 1,153 |
| Other corporate assets | | | | | | | | 201,371 |
| Total consolidated assets | | | | | | | | 5,605,943 |
| **As at 31 December 2017** | | | | | | | | |
| Liabilities | 268,646 | 33,726 | 526,640 | 34,625 | 42,025 | 26,540 | 13,161 | 945,363 |
| Bank borrowings | | | | | | | | 287,000 |
| Tax liabilities | | | | | | | | 755,350 |
| Other corporate liabilities | | | | | | | | 187,345 |
| Total consolidated liabilities | | | | | | | | 2,175,058 |

| | Electrical appliances HK$'000 | Power discrete semiconductors HK$'000 | Property leasing HK$'000 | Property investment and development HK$'000 | Securities investment HK$'000 | Taxi and car rental HK$'000 | Other segments HK$'000 | Corporate HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Other information:** | | | | | | | | | |
| **Year ended 31 December 2017** | | | | | | | | | |
| Interest income | 1,789 | 21 | 423 | 65 | 9,271 | 3,115 | 338 | 3,393 | 18,415 |
| Finance costs | 1,621 | 107 | 16,576 | – | 1,211 | – | – | 12,430 | 31,945 |
| Depreciation and amortisation | 11,119 | 13,155 | 121 | 3 | – | 15,927 | 5,910 | 6,192 | 52,427 |
| Fair value gain on investment properties | – | – | 62,898 | – | – | – | – | – | 62,898 |
| Impairment loss/(Reversal of impairment loss) on financial assets recognised in profit or loss | 1,470 | – | 117 | 1,253 | – | (93) | – | – | 2,747 |
| Reversal of impairment loss on inventories of properties | – | – | – | 5,045 | – | – | – | – | 5,045 |
| Reversal of allowance/(Allowance) for other inventories | 7,615 | (1,257) | – | – | – | – | – | – | 6,358 |
| Write-off of property, plant and equipment | – | 30 | – | – | – | – | 3,559 | 155 | 3,744 |
| Share of profit of associates | – | – | 14,577 | – | – | – | – | – | 14,577 |
| Share of loss of joint ventures | – | – | – | – | – | – | 4,690 | – | 4,690 |
| Capital expenditure^ | 6,862 | 15,023 | 1,687 | – | – | 23,425 | 6,745 | 7,204 | 60,946 |
| **As at 31 December 2017** | | | | | | | | | |
| Interests in associates | – | – | 167,997 | – | – | – | – | – | 167,997 |
| Interests in joint ventures | – | – | – | – | – | – | 916 | – | 916 |

## 7. BUSINESS INFORMATION *(Continued)*

| | Electrical appliances HK$'000 | Power discrete semiconductors HK$'000 | Property leasing HK$'000 | Property investment and development HK$'000 | Securities investment HK$'000 | Taxi and car rental HK$'000 | Other segments HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | | | | |
| Revenue | 782,911 | 177,163 | 101,803 | – | – | 77,208 | 151 | 1,139,236 |
| Profit/(Loss) | 82,162 | 4,493 | 149,233 | 17,505 | (4,794) | 12,806 | (52,426) | 208,979 |
| Corporate income | | | | | | | | 8,674 |
| Corporate expenses | | | | | | | | (72,812) |
| Profit before income tax | | | | | | | | 144,841 |
| **As at 31 December 2016** | | | | | | | | |
| Assets | 536,749 | 265,877 | 2,572,801 | 666,505 | 378,664 | 247,968 | 104,380 | 4,772,944 |
| Property, plant and equipment | | | | | | | | 151,524 |
| Other assets | | | | | | | | 66,190 |
| Available-for-sale financial assets | | | | | | | | 380 |
| Tax assets | | | | | | | | 272 |
| Other corporate assets | | | | | | | | 388,439 |
| Total consolidated assets | | | | | | | | 5,379,749 |
| **As at 31 December 2016** | | | | | | | | |
| Liabilities | 350,592 | 69,292 | 551,595 | 27,585 | 25 | 20,058 | 24,110 | 1,043,257 |
| Bank borrowings | | | | | | | | 453,571 |
| Tax liabilities | | | | | | | | 688,608 |
| Other corporate liabilities | | | | | | | | 184,038 |
| Total consolidated liabilities | | | | | | | | 2,369,474 |

| | Electrical appliances HK$'000 | Power discrete semiconductors HK$'000 | Property leasing HK$'000 | Property investment and development HK$'000 | Securities investment HK$'000 | Taxi and car rental HK$'000 | Other segments HK$'000 | Corporate HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Other information:** | | | | | | | | | |
| **Year ended 31 December 2016** | | | | | | | | | |
| Interest income | 1,200 | 20 | 300 | 531 | 8,118 | 1,219 | 650 | 3,574 | 15,612 |
| Finance costs | 645 | 720 | 18,400 | – | – | – | – | 11,009 | 30,774 |
| Depreciation and amortisation | 13,344 | 11,167 | 131 | 10 | – | 15,431 | 5,553 | 7,281 | 52,917 |
| Fair value gain on investment properties | – | – | 91,892 | – | – | – | – | – | 91,892 |
| (Reversal of impairment)/Impairment loss on financial assets recognised in profit or loss | 2,023 | – | 118 | 805 | 16,348 | (258) | – | – | 19,036 |
| Reversal of impairment loss on inventories of properties | – | – | – | 19,140 | – | – | – | – | 19,140 |
| Allowance for other inventories | 8,049 | 1,074 | – | – | – | – | – | – | 9,123 |
| Write-off of other inventories | – | – | – | – | – | – | 3,870 | – | 3,870 |
| Write-off of property, plant and equipment | – | – | – | – | – | – | 3,890 | – | 3,890 |
| Share of loss of associates | – | – | 5,350 | – | – | – | – | – | 5,350 |
| Share of profit of joint ventures | – | – | – | – | – | – | 2,119 | – | 2,119 |
| Capital expenditure^ | 2,256 | 24,317 | 2,981 | – | – | 7,098 | 14,006 | 883 | 51,541 |
| **As at 31 December 2016** | | | | | | | | | |
| Interests in associates | – | – | 145,661 | – | – | – | – | – | 145,661 |

^ Capital expenditure includes additions to investment properties, property, plant and equipment, prepaid lease rental on land, deposits paid, prepayments for acquisition of property, plant and equipment, goodwill, other intangible assets and other assets

## 7. BUSINESS INFORMATION *(Continued)*

During the current year, the directors reassessed the geographical information and in light of the information currently reported to the senior management, the directors considered that it is more appropriate to determine revenue by geographical locations based on (i) location of customers or (ii) location of properties in case of rental income. Accordingly, the comparative figures in of revenue by geographical locations for the year ended 31 December 2016 have been restated to conform to current year's presentation.

The analysis of revenue by geographical locations is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Hong Kong (Place of domicile) | **24,457** | 22,605 |
| Other regions of the PRC | **377,678** | 342,277 |
| Taiwan | **447,142** | 375,970 |
| Other Asian countries | **80,322** | 65,471 |
| Australia | **55,937** | 59,186 |
| North America (comprising Canada and the USA) | **120,748** | 118,534 |
| Europe | **169,151** | 139,223 |
| Others | **9,002** | 15,970 |
| | **1,284,437** | 1,139,236 |

An analysis of the Group's non-current assets excluding financial instruments and deferred tax assets by geographical locations, determined based on location of the assets or location of operations in case of goodwill and interests in associates and joint ventures, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **667,025** | 624,269 |
| Other regions of the PRC | **2,618,093** | 2,450,307 |
| Asia, other than the PRC | **71,582** | 68,715 |
| North America | **167,414** | 149,355 |
| United Kingdom | **14,683** | 13,523 |
| | **3,538,797** | 3,306,169 |

Revenue derived from major customers, each of them accounted for 10% or more of the Group's revenue, are set out below:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **372,304** | 311,361 |
| Customer B | **154,500** | 172,222 |
| Customer C | **131,023** | N/A |

N/A: not applicable as revenue generated from the customer is less than 10% of the Group's revenue

The revenue derived from the above major customers is reported under the segment "Electrical appliances".

## 8. FINANCE COSTS

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Interest charges on: | | |
| Bank loans and overdrafts | **26,267** | 25,749 |
| Finance lease payable | **14** | – |
| Other liabilities | **609** | – |
| Total interest expense | **26,890** | 25,749 |
| Bank charges and arrangement fee | **5,055** | 5,025 |
| | **31,945** | 30,774 |

## 9. PROFIT BEFORE INCOME TAX

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Profit before income tax is arrived at after charging/(crediting): | | |
| Total amortisation and depreciation: | | |
| Amortisation of prepaid lease rental on land | **934** | 740 |
| Amortisation of other intangible assets[#] | **904** | 918 |
| Depreciation of property, plant and equipment | **50,589** | 51,259 |
| | **52,427** | 52,917 |
| Auditors' remuneration: | | |
| Current year | **2,039** | 1,887 |
| Under-provision in prior year | **235** | 46 |
| Cost of sales and services provided comprise: | | |
| Amount of inventories recognised as expense | **821,159** | 714,166 |
| (Reversal of allowance)/Allowance for other inventories | **(6,358)** | 9,123 |
| Reversal of impairment loss on inventories of properties *(note (a))* | **(5,045)** | (19,140) |
| Write-off of other inventories | **–** | 3,870 |
| Directors' emoluments | **21,197** | 19,361 |
| Donations | **2,592** | 2,665 |
| Loss on disposal of property, plant and equipment | **1,431** | 377 |
| Impairment loss on loans and receivables | **2,497** | 1,765 |
| Write-off of loans and receivables | **250** | 923 |
| Write-off of property, plant and equipment | **3,744** | 3,890 |
| Net foreign exchange gain *(note (b))* | **(87,713)** | (338) |
| Outgoings in respect of investment properties | **23,238** | 25,221 |
| Net rental income from investment properties | **(74,817)** | (76,582) |
| Operating lease charge on land and buildings | **5,046** | 5,673 |
| Research and development cost[^] | **34,974** | 35,991 |
| Staff costs *(note 11)* | **185,804** | 178,556 |

[#] included in "Cost of sales and services provided" in the consolidated income statement

[^] including depreciation of property, plant and equipment and staff costs of HK$4,823,000 (2016: HK$4,525,000) and HK$4,487,000 (2016: HK$4,106,000) respectively

Note:

(a) Impairment provision of HK$5,045,000 (2016: HK$19,140,000) made in prior years against the carrying amount of inventories of properties has been reversed. This reversal arose due to an increase in the fair value of the respective property projects as assessed by the directors of the Company with reference to valuation conducted by independent professional valuers.

(b) Net foreign exchange gain for current year of HK$87,713,000 includes a gain of HK$101,369,000 which arose from settlement of the intercompany balances due by a subsidiary to another group company during the year. The exchange differences arising in the past were dealt with in translation reserve as the intercompany balances form part of the net investment in that subsidiary. Upon settlement of the intercompany balances during the year, such exchange gain accumulated in the translation reserve were reclassified from translation reserve to the income statement.

## 10. INCOME TAX EXPENSE

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Income tax expense comprise: | | |
| Current tax for the year | | |
| Hong Kong profits tax | **4,561** | 4,887 |
| Other regions of the PRC – Enterprise Income Tax ("EIT") | **46,996** | 19,414 |
| Other regions of the PRC — Land Appreciation Tax ("LAT") | **2,691** | – |
| Others | **1,236** | 2,536 |
| | **55,484** | 26,837 |
| (Over)/Under provision in prior years | | |
| Hong Kong profits tax | **(116)** | (20) |
| Other regions of the PRC | **(3,909)** | 249 |
| Others | **2** | (525) |
| | **(4,023)** | (296) |
| Deferred tax *(note 37)* | | |
| PRC LAT | **528** | 70,299 |
| Other income tax | **10,713** | 8,218 |
| | **11,241** | 78,517 |
| Income tax expense | **62,702** | 105,058 |

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the year.

EIT arising from other regions of the PRC is calculated at 10% to 25% (2016: 10% to 25%) on the estimated assessable income for the year.

PRC LAT is levied at progressive rates from 30% to 60% on the estimated appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights and development and construction expenditure.

Overseas tax is calculated at the rates applicable in the respective jurisdictions.

The income tax expense for the year can be reconciled to the profit before income tax in the consolidated income statement at applicable tax rates as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Profit before income tax | **335,578** | 144,841 |
| Tax on profit at the rates applicable to profits in the jurisdictions concerned | **78,927** | 8,454 |
| Expenses not deductible for tax purpose | **21,546** | 19,470 |
| Income not taxable for tax purpose | **(42,932)** | (13,670) |
| Share of results of associates and joint ventures | **(1,329)** | 533 |
| Utilisation of tax losses and other temporary differences previously not recognised | **(3,911)** | (2,217) |
| Tax losses not recognised | **8,749** | 22,446 |
| Over provision in prior years | **(4,023)** | (296) |
| Effect of withholding tax on distributable profits of the Company's PRC subsidiaries | **10,871** | – |
| PRC LAT | **3,219** | 70,299 |
| Others | **(8,415)** | 39 |
| Income tax expense | **62,702** | 105,058 |

## 11. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Salaries, allowances and other benefits | **173,033** | 169,142 |
| Retirement fund contributions *(note 46)* | **9,335** | 8,121 |
| Equity-settled share-based payment expense *(notes 41(b) and (c))* | **2,541** | 16 |
| Termination benefits | **895** | 1,277 |
| | **185,804** | 178,556 |

## 12. DIVIDENDS

### (a) Dividend payable to owners of the Company attributable to the year

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Proposed final dividend – HK$0.005 (2016: HK$0.005) per ordinary share | **2,617** | 2,617 |

The final dividend of HK$0.005 (2016: HK$0.005) per ordinary share, amounting to HK$2,617,000 (2016: HK$2,617,000), has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

### (b) Dividend payable to owners of the Company attributable to previous financial year

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Final dividend in respect of previous financial year, approved and paid during the year of HK$0.005 (2016: HK$0.005) per ordinary share | **2,617** | 2,617 |

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$267,834,000 (2016: HK$38,951,000) and the weighted average number of ordinary shares in issue during the year of 523,485,000 (2016: 523,485,000).

The calculation of diluted earnings per share for the year ended 31 December 2017 is based on the profit attributable to owners of the Company for the purposes of calculating basic earnings per share amounting to HK$267,834,000, adjusted for the dilutive effect on profit attributable to owners of the Company assuming the exercise of the outstanding share options granted by PFC Device Inc. (note 41(c)) which amounted to HK$5,000 and the weighted average number of ordinary shares in issue during the year of 523,485,000.

No diluted earnings per share was presented for the year ended 31 December 2016 as the exercise of the options granted by certain subsidiaries (note 41) had an anti-dilutive effect on the basic earnings per share.

## 14. INVESTMENT PROPERTIES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **2,326,942** | 2,394,284 |
| Translation adjustment | **116,374** | (110,215) |
| Additions | **1,450** | 2,981 |
| Disposal of a subsidiary *(note 44(b))* | **–** | (52,000) |
| Disposal *(note (a))* | **(28,149)** | – |
| Increase in fair value* | **62,898** | 91,892 |
| Carrying amount at 31 December | **2,479,515** | 2,326,942 |

* disclosed as "Fair value gain on investment properties" in the consolidated income statement

## 14. INVESTMENT PROPERTIES *(Continued)*

Notes:

(a) During the year ended 31 December 2017, the Group disposed of certain investment properties which are situated in the PRC with aggregate carrying value of HK$28,149,000 at net disposal proceeds of HK$82,023,000 and thus recognised gain on disposal of investment properties amounted to HK$53,874,000. The disposed properties were previously classified as property, plant and equipment with revaluation surplus amounting to HK$3,033,000 being recognised and accumulated in asset revaluation reserve. Upon the disposal, the Group reclassified the revaluation surplus recognised in respect of these disposed properties from asset revaluation reserve to retained profits.

(b) The Group's investment properties are measured at fair value on a recurring basis. The fair values of the investment properties as at 31 December 2017 and 2016 were assessed by the directors with reference to valuations carried out at those dates conducted by independent professional valuers. Valuation of investment properties which are situated in Hong Kong, other regions of the PRC and the United Kingdom were carried out by Knight Frank Petty Limited and Knight Frank LLP respectively. In respect of the investment properties situated in the USA, valuation as at 31 December 2017 and 2016 were carried out by Newmark Knight Frank Valuation & Advisory, LLC and Cushman & Wakefield Western, Inc., respectively. Knight Frank Petty Limited, Knight Frank LLP , Newmark Knight Frank Valuation & Advisory, LLC and Cushman & Wakefield Western, Inc. are independent firms of professionally qualified valuers and have appropriate qualifications and recent experience in the valuation of similar properties in nearby locations.

(c) The fair value measurement of the Group's investment properties has been categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair value measurement ("HKFRS 13"). All of the fair values of the investment properties as at 31 December 2017 and 2016 are level 3 recurring fair value measurement, which use significant unobservable inputs in arriving at fair value. There were no transfers between level 1 and level 2, or transfers into or out of level 3 during the year and in prior year.

Below is a summary of the valuation techniques and key inputs to the valuations as at the end of the reporting period:

| Properties | Location | Valuation technique | Unobservable inputs | Range of unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Industrial premises | Hong Kong | Direct Comparison Approach | Unit price per square foot ("sq. ft.") | HK$3,824 (2016: HK$3,570) per sq. ft. | The higher the unit price, the higher the fair value |
| Industrial premises | Hong Kong | Income Capitalisation Approach | Monthly rent per sq. ft. | HK$38 (2016: HK$35) per sq. ft. | The higher the market rent, the higher the fair value |
| | | | Capitalisation rate | 3.8% (2016: 3.8%) | The higher the capitalisation rate, the lower the fair value |
| Commercial complex | PRC | Income Capitalisation Approach | Daily rent per square metre ("sq. m.") | Renminbi ("RMB") 6.1 (2016: RMB6.1) per sq. m. | The higher the market rent, the higher the fair value |
| | | | Capitalisation rate | 6.0% (2016: 6.0%) | The higher the capitalisation rate, the lower the fair value |
| Commercial premise | PRC | Income Capitalisation Approach | Monthly rent per sq. m. | RMB200 (2016: RMB200) per sq. m. | The higher the market rent, the higher the fair value |
| | | | Capitalisation rate | 6% (2016: 6%) | The higher the capitalisation rate, the lower the fair value |
| Buildings on industrial site | PRC | Income Capitalisation Approach | Monthly rent per sq. m. | N/A^ (2016: RMB10.0) per sq. m. | The higher the market rent, the higher the fair value |
| | | | Capitalisation rate | N/A^ (2016: 9.5%) | The higher the capitalisation rate, the lower the fair value |
| A parcel of land | PRC | Direct Comparison Approach | Unit rate per sq. m. | N/A^ (2016: RMB670) per sq. m. | The higher the unit rate, the higher the fair value |

## 14. INVESTMENT PROPERTIES *(Continued)*

| Properties | Location | Valuation technique | Unobservable inputs | Range of unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Residential premise | PRC | Income Capitalisation Approach | Monthly rent per sq. m. | RMB185 (2016: RMB175) per sq. m. | The higher the market rent, the higher the fair value |
| | | | Capitalisation rate | 2.5% (2016: 2.5%) | The higher the capitalisation rate, the lower the fair value |
| Industrial complex | PRC | Direct Comparison Approach | Unit rate per sq. m. | RMB7,400 (2016: RMB7,400) per sq. m. | The higher the unit rate, the higher the fair value |
| Residential premise | United Kingdom | Sales Comparison Approach | Unit price per sq. ft. | British Pound Sterling ("GBP") 1,630 (2016: GBP1,660) per sq. ft. | The higher the unit price, the higher the fair value |
| Commercial complex | USA | Income Capitalisation Approach – Discounted cash flow method | Monthly rent per sq. ft. | United States Dollars ("US$") 0.8 to US$1.3 (2016: US$0.7 to US$1.2) per sq.ft. | The higher the market rent, the higher the fair value |
| | | | Terminal capitalisation rate | 7.0% to 8.0% (2016: 7.5% to 8.0%) | The higher the terminal capitalisation rate, the lower the fair value |
| | | | Internal rate of return | 10.0% to 11.5% (2016: 9.5%) | The higher the internal rate of return, the lower the fair value |
| | | 2016: Sales Comparison Approach: | Unit price per sq. ft. | US$71.10 to US$95.07 per sq. ft. | The higher the unit price, the higher the fair value |

^ The building on industrial site and a parcel of land were disposed of during 2017.

The fair value measurement is based on the highest and best use of the investment properties, which does not differ from their actual use.

Under Sales Comparison Approach or Direct Comparison Approach, fair value is assessed by reference to market comparable transactions available in the relevant market.

Under Income Capitalisation Approach, fair value is assessed on the basis of capitalisation of net income.

Under Income Capitalisation Approach – Discounted cash flow method, fair value is assessed by discounting cash flow series associated with the properties using risk-adjusted discounted rates.

The investment properties are leased to third parties under operating leases to earn rental income, further details of which are included in note 48.

In securing the bank borrowings, the Group has undertaken, under a negative pledge clause, to obtain prior written consent from the relevant banks regarding the transfer, sales or disposal of certain investment properties with carrying amount of HK$486,800,000 (2016: HK$453,050,000) as at 31 December 2017.

Certain investment properties of the Group are pledged as further detailed in note 47.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$'000 | Plant and machinery HK$'000 | Tools and moulds HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2016 | 302,371 | 116,236 | 74,340 | 65,002 | 99,624 | 657,573 |
| Translation adjustment | (9,490) | (7,331) | (3,197) | (2,684) | (5,473) | (28,175) |
| Additions | 1,394 | 41,877 | 2,024 | 11,522 | 5,948 | 62,765 |
| Acquisition of subsidiaries *(note 43)* | – | – | – | 716 | – | 716 |
| Disposals | – | (36) | – | (2) | (9,262) | (9,300) |
| Write-off | – | – | – | (4,484) | – | (4,484) |
| Revaluation adjustment | (11,578) | – | – | – | – | (11,578) |
| **At 31 December 2016 and 1 January 2017** | **282,697** | **150,746** | **73,167** | **70,070** | **90,837** | **667,517** |
| Translation adjustment | **8,912** | **10,490** | **4,290** | **3,478** | **5,497** | **32,667** |
| Additions | **789** | **11,036** | **2,080** | **9,806** | **24,736** | **48,447** |
| Disposals | **–** | **(57)** | **–** | **(106)** | **(17,667)** | **(17,830)** |
| Disposal of a subsidiary *(note 44(c))* | **–** | **–** | **–** | **(1,673)** | **–** | **(1,673)** |
| Write-off | **–** | **(44)** | **–** | **(4,238)** | **(264)** | **(4,546)** |
| Revaluation adjustment | **11,639** | **–** | **–** | **–** | **–** | **11,639** |
| **At 31 December 2017** | **304,037** | **172,171** | **79,537** | **77,337** | **103,139** | **736,221** |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | |
| At 1 January 2016 | – | 36,399 | 71,014 | 41,421 | 45,476 | 194,310 |
| Translation adjustment | (355) | (2,764) | (3,254) | (1,967) | (2,826) | (11,166) |
| Depreciation provided | 12,591 | 12,594 | 1,540 | 8,050 | 16,484 | 51,259 |
| Disposals | – | (6) | – | (1) | (8,389) | (8,396) |
| Write-off | – | – | – | (594) | – | (594) |
| Revaluation adjustment | (12,236) | – | – | – | – | (12,236) |
| **At 31 December 2016 and 1 January 2017** | **–** | **46,223** | **69,300** | **46,909** | **50,745** | **213,177** |
| Translation adjustment | **289** | **3,677** | **4,002** | **2,489** | **3,299** | **13,756** |
| Depreciation provided | **12,466** | **14,647** | **1,743** | **5,486** | **16,247** | **50,589** |
| Disposals | **–** | **(5)** | **–** | **(15)** | **(14,189)** | **(14,209)** |
| Disposal of a subsidiary *(note 44(c))* | **–** | **–** | **–** | **(1,237)** | **–** | **(1,237)** |
| Write-off | **–** | **(14)** | **–** | **(672)** | **(116)** | **(802)** |
| Revaluation adjustment | **(12,755)** | **–** | **–** | **–** | **–** | **(12,755)** |
| **At 31 December 2017** | **–** | **64,528** | **75,045** | **52,960** | **55,986** | **248,519** |
| **NET CARRYING AMOUNT** | | | | | | |
| **At 31 December 2017** | **304,037** | **107,643** | **4,492** | **24,377** | **47,153** | **487,702** |
| At 31 December 2016 | 282,697 | 104,523 | 3,867 | 23,161 | 40,092 | 454,340 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's land and buildings classified as property, plant and equipment are stated at revalued amount less any subsequent accumulated depreciation and impairment losses with effect from 31 December 2014. As at 31 December 2017, the Group recorded an increase in fair value for land and buildings of HK$24,394,000 (2016: HK$658,000). The increase in fair value net of the resulting income tax of HK$3,134,000 (2016: HK$800,000) which amounted to HK$21,260,000 (surplus) (2016: HK$142,000 (deficit)) is dealt with in assets revaluations reserve in equity.

The difference in depreciation provided based on the original cost and revalued amount of the land and buildings for the year ended 31 December 2017 amounting to HK$8,048,000 (2016: HK$7,880,000) was reclassified from assets revaluation reserve to retained profits.

The fair values of the land and buildings classified as property, plant and equipment as at 31 December 2017 and 2016 were assessed by the directors with reference to valuations carried out at those dates conducted by independent professional valuers. Valuation of the land and buildings situated in Hong Kong and other regions of the PRC were conducted by Knight Frank Petty Limited whereas valuation of the land and buildings situated in Thailand were carried out by Knight Frank Chartered (Thailand) Company Limited. Both Knight Frank Petty Limited and Knight Frank Chartered (Thailand) Company Limited are independent firms of professionally qualified valuers and have appropriate qualifications and recent experience in the valuation of similar properties in nearby locations.

The fair value measurement of the Group's land and buildings have been categorised into the three-level fair value hierarchy as defined in HKFRS 13. All the fair values of land and buildings as at 31 December 2017 and 2016 are level 3 recurring fair value measurement, which uses significant unobservable inputs in arriving at fair value. There were no transfers between level 1 and level 2, or transfers into or out of level 3 during the year and in prior year.

Below is a summary of the valuation techniques and key inputs to the valuations of land and buildings as at the end of the reporting period:

| Properties | Location | Valuation technique | Unobservable inputs | Range of unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Industrial premises | Hong Kong | Direct Comparison Approach | Unit price per sq. ft | HK$2,450 – HK$3,824 (2016: HK$2,300 – HK$3,570) per sq. ft. | The higher the unit price, the higher the fair value |
| Industrial premises | PRC | Income Capitalisation Approach | Monthly rent per sq. m. | RMB13 (2016: RMB13) per sq. m. | The higher the market rent, the higher the fair value |
| | | | Capitalisation rate | 6.75% (2016: 6.75%) | The higher the capitalisation rate, the lower the fair value |
| Residential premises | PRC | Direct Comparison Approach | Unit rate per sq. m. | RMB5,500 (2016: RMB5,000) per sq. m. | The higher the unit rate, the higher the fair value |
| Commercial complex | PRC | Income Capitalisation Approach | Daily rent per sq. m. | RMB6.1 (2016: RMB6.1) per sq. m. | The higher the market rent, the higher the fair value |
| | | | Capitalisation rate | 6.0% (2016: 6.0%) | The higher the capitalisation rate, the lower the fair value |

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| Properties | Location | Valuation technique | Unobservable inputs | Range of unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Commercial premises | PRC | Income Capitalisation Approach | Monthly rent per sq. m. | RMB170 (2016: RMB168) per sq. m. | The higher the market rent, the higher the fair value |
| | | | Capitalisation rate | 5.25% (2016:5.25%) | The higher the capitalisation rate, the lower the fair value |
| Commercial premises | PRC | Direct Comparison Approach | Unit rate per sq. m. | RMB58,000 (2016: RMB57,000) per sq. m. | The higher the unit rate, the higher the fair value |
| Residential premises | Thailand | Direct Comparison Approach | Unit price per sq. m. | US$3,370 (2016: US$3,240) per sq. m. | The higher the unit price, the higher the fair value |

The fair value measurement is based on the highest and best use of the properties, which does not differ from their actual use.

Under Direct Comparison Approach, fair value is assessed by reference to market comparable transactions available in the relevant market.

Under Income Capitalisation Approach, fair value is assessed on the basis of capitalisation of net income.

Had the revalued properties been measured on cost model, their net carrying amount would have been HK$101,628,000 (2016: HK$101,550,000).

In securing the bank borrowings, the Group has undertaken under a negative pledge clause, to obtain prior written consent from the relevant banks regarding the transfer, sales or disposal of certain property, plant and equipment with carrying amount of HK$236,052,000 (2016: HK$217,884,000) as at 31 December 2017.

Certain property, plant and equipment of the Group are pledged as further detailed in note 47.

## 16. PREPAID LEASE RENTAL ON LAND

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **32,399** | 25,563 |
| Translation adjustment | **2,239** | (1,590) |
| Addition | **–** | 9,166 |
| Amortisation charged | **(934)** | (740) |
| Carrying amount at 31 December | **33,704** | 32,399 |
| Analysed into: | | |
| Non-current portion included in non-current assets | **32,719** | 31,471 |
| Current portion included in current assets | **985** | 928 |
| | **33,704** | 32,399 |

Certain of the Group's interest in prepaid lease rental on land are pledged as further detailed in note 47.

## 17. GOODWILL

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January and 31 December | **4,393** | 4,393 |

The amount of goodwill at the end of the reporting period is allocated to the cash-generating unit of manufacturing and sales of power discrete semiconductors within the segment of "Power discrete semiconductors" and is tested for impairment, together with other relevant assets by the management by estimating the recoverable amount of this cash-generating unit based on value-in-use calculations. The calculations comprise cash flow projections based on the financial budgets approved by the management. The period covered by the financial budgets is three years. Cash flows beyond the three-year period are extrapolated using an estimated growth rate of 3%. Based on the results of the impairment testing, management determines that there is no impairment in respect of this cash-generating unit.

Key assumptions used by the management in the value-in-use calculations of this cash-generating unit include:

| | 2017 | 2016 |
|---|---|---|
| Discount rate (pre-tax) | **18%** | 16% |
| Gross profit margin | **23%–24%** | 27%–28% |

These assumptions have been determined based on past performance and management's expectations in respect of the market conditions and economy which have impact on the business in which this cash-generating unit is engaged. Sales are forecasted with reference to the annual sale plan provided by customers. Gross profit margin is forecasted based on the gross profit margin achieved in prior year adjusted for the expected change in market conditions and taking into account the annual sale plan of customers. The pre-tax discount rate used reflects the specific risks relating to the business and industry in which this cash-generating unit is engaged.

## 18. OTHER INTANGIBLE ASSETS

| | Taxi licences HK$'000 | Small passenger car quotas licences HK$'000 | Patent, trademark and copyrights HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2016 | 266,113 | 1,969 | 11,554 | 279,636 |
| Translation adjustment | (16,877) | (125) | 7 | (16,995) |
| Disposal | – | – | (1,966) | (1,966) |
| Acquisition of subsidiaries *(note 43)* | – | – | 2,586 | 2,586 |
| **At 31 December 2016 and 1 January 2017** | **249,236** | **1,844** | **12,181** | **263,261** |
| Translation adjustment | **17,401** | **130** | **72** | **17,603** |
| Disposal | **–** | **–** | **(2,588)** | **(2,588)** |
| Write-off | **(2,175)** | **–** | **–** | **(2,175)** |
| **At 31 December 2017** | **264,462** | **1,974** | **9,665** | **276,101** |
| **AMORTISATION AND IMPAIRMENT** | | | | |
| At 1 January 2016 | 50,631 | – | 9,588 | 60,219 |
| Translation adjustment | (3,250) | – | 6 | (3,244) |
| Amortisation charged | 918 | – | – | 918 |
| **At 31 December 2016 and 1 January 2017** | **48,299** | **–** | **9,594** | **57,893** |
| Translation adjustment | **3,326** | **–** | **71** | **3,397** |
| Amortisation charged | **474** | **–** | **430** | **904** |
| Disposal | **–** | **–** | **(430)** | **(430)** |
| Write-off | **(2,175)** | **–** | **–** | **(2,175)** |
| **At 31 December 2017** | **49,924** | **–** | **9,665** | **59,589** |
| **NET CARRYING AMOUNT** | | | | |
| **At 31 December 2017** | **214,538** | **1,974** | **–** | **216,512** |
| At 31 December 2016 | 200,937 | 1,844 | 2,587 | 205,368 |

### Taxi Licences

During the year ended 31 December 2012, the PRC government granted to the Group 20 taxi licences for free (the "Free Taxi Licences"), which entitle the licence holders to operate the taxi vehicles during a fixed period of time in a day for a five-year period and was expired on 1 March 2017. During the year ended 31 December 2013, the PRC government granted another 15 Free Taxi Licences to the Group which entitle the licence holders to operate the taxi vehicles during the specified time period in a day for a five-year period up to 1 August 2018. The useful life of these Free Taxi Licences is therefore five years.

## 18. OTHER INTANGIBLE ASSETS *(Continued)*

### Taxi Licences *(Continued)*

The Group recognised these Free Taxi Licences as intangible assets with a corresponding amount recognised as deferred government grants in accordance with the accounting policies set out in note 4.29. The fair value of the Free Taxi Licences on initial recognition amounting to HK$4,987,000 in aggregate was determined based on value-in-use calculations. Free Taxi Licences are subsequently measured at cost less amortisation and impairment and their carrying amount as at 31 December 2017 was HK$327,000 (2016: HK$764,000).

In the opinion of the directors, the taxi licences except for the Free Taxi Licences ("Other Taxi Licences"), have indefinite useful life as there is no foreseeable limit on the period of time on which Other Taxi Licences are expected to generate cash flows.

Other Taxi Licences with net carrying amount of HK$214,211,000 as at 31 December 2017 (2016: HK$200,173,000) are tested for impairment by the management by estimating its recoverable amount based on value-in-use calculations. The calculations use cash flow projections based on the financial budgets approved by the management. The financial budgets prepared for current year's impairment assessment are up to year 2053 (2016: 2053) assuming the Group is able to extend the business period of the subsidiary engaging in taxi rental operation by 20 years upon expiry in year 2033 on the ground that the application made to the relevant PRC government authority for extending business period in previous years were successful and without encountering significant difficulty.

Other key assumptions used by management in the value-in-use calculations of Other Taxi Licences have been determined based on past performance and its expectations for the market development. Key assumptions underlying the cash flow projections include (i) the number of Other Taxi Licences held by the Group remains the same throughout the forecast period, and (ii) taxi rental income is determined based on the fee income to be received pursuant to the existing rental agreements, adjusted by the expected market development. The pre-tax discount rate applied to the cash flow projections is 13% (2016: 13%) which reflects specific risks relating to the taxi rental operation in the PRC. Based on the result of the impairment testing, management determines that there is no impairment in respect of the taxi licences as at 31 December 2017 (2016: nil).

### Small Passenger Car Quotas

Balances as at 31 December 2017 and 2016 represented the net carrying amount of 22 small passenger car quotas (the "Car Quotas") acquired by the Group in 2015 at aggregate consideration of approximately HK$1,969,000.

The Car Quotas entitle the holders to apply for licence plates for small passenger cars in Guangzhou, the PRC under specific rules and regulations for an unspecified period. Based on the existing available rules and regulations made available to the Group, the directors are of the opinion that these Car Quotas carry indefinite useful life.

### Patent, and trademark and copyrights

During the year ended 31 December 2017, the Group disposed of certain trademark with net carrying amount of HK$2,158,000 to a joint venture at cash consideration of HK$2,206,000, resulting a disposal gain of HK$48,000.

During the year ended 31 December 2016, the Group disposed of certain patent with net carrying amount of HK$1,966,000 at cash consideration of HK$1,550,000, resulting a disposal loss of HK$416,000.

## 19. INTERESTS IN ASSOCIATES

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Share of net assets | **167,997** | 145,661 |

Details of the Group's principal associates as at 31 December 2017 are set out in note 57.

The following illustrates the summarised financial information in relation to the Group's associates as at 31 December 2017 with comparative information extracted from their management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **Year ended 31 December** | | |
| Revenue | **80,660** | 83,812 |
| Profit/(Loss) for the year | **72,885** | (26,748) |
| Other comprehensive income | **43,080** | (41,596) |
| Total comprehensive income | **115,965** | (68,344) |
| Dividend received from associates | **–** | – |
| **As at 31 December** | | |
| Current assets | **146,563** | 92,124 |
| Non-current assets | **1,423,474** | 1,320,293 |
| Current liabilities | **(129,926)** | (117,030) |
| Non-current liabilities | **(600,126)** | (567,083) |
| Net assets | **839,985** | 728,304 |
| Carrying amount of the Group's interest in the net assets of the associates | **167,997** | 145,661 |

## 20. INTERESTS IN JOINT VENTURES

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Share of net assets | **916** | – |

During the year ended 31 December 2016, the Group acquired the joint venturers' equity interests in its joint venture and after the acquisition, the joint venture and its subsidiary have become wholly-owned subsidiaries of the Company (note 43).

Details of the Group's newly set up joint ventures as at 31 December 2017 are set out in note 58.

## 20. INTERESTS IN JOINT VENTURES *(Continued)*

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| **Year ended 31 December** | | |
| Share of the joint ventures' (loss)/profit for the year | **(4,690)** | 2,119 |
| Share of the joint ventures' other comprehensive income for the year | **(265)** | (425) |
| Share of the joint ventures' total comprehensive income for the year | **(4,955)** | 1,694 |

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| **As at 31 December** | | |
| Aggregate carrying amount of the Group's interests in joint ventures | **916** | – |

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Unlisted investments: | | |
| Club debentures *(note)* | **380** | 380 |
| Equity securities, listed in Hong Kong, at fair value | **178,533** | 41,075 |
| Equity securities, unlisted in the PRC, at fair value | **142,360** | 133,813 |
| Debt securities listed outside Hong Kong, at fair value | **–** | 81,190 |
| | **321,273** | 256,458 |

Note: Club debentures are stated at cost less impairment.

During the year ended 31 December 2017, the Group disposed of all the above debt securities at aggregate consideration of HK$86,109,000 and recognised gain on disposal of HK$5,857,000, of which HK$938,000 was reclassified from other comprehensive income to income statement.

During the year ended 31 December 2016, there was prolonged and significant decline in the market value of certain Hong Kong listed equity securities. The directors considered that such decline indicated that those listed equity securities had been impaired and an impairment loss of HK$16,348,000, which was reclassified from other comprehensive income, had been recognised in profit or loss.

The Group does not intend to dispose of these investments in the near future. Certain equity securities are pledged as further detailed in note 47.

## 22. OTHER ASSETS

Other assets represent antiques and art works held by the Group for long-term investment purposes. Antiques and art works are reviewed for impairment by the management with reference to the valuation conducted by an independent professional valuer. In the opinion of the directors, the antiques and artworks worth at least their carrying values at the end of the reporting period.

## 23. LOANS RECEIVABLE

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Loans receivable from: | | |
| Investees *(note (a))* | **12,382** | 16,492 |
| Associates *(note (b))* | **72,057** | 73,127 |
| Others *(note (c))* | **15,313** | 17,304 |
| | **99,752** | 106,923 |
| Less: Impairment *(notes (a), (b) and (c))* | **(34,908)** | (39,312) |
| | **64,844** | 67,611 |
| Analysed into: | | |
| Amounts receivable in more than one year included in non-current assets | **50,804** | 52,083 |
| Amounts receivable within one year included in current assets | **14,040** | 15,528 |
| | **64,844** | 67,611 |

Notes:

(a) The loans to investees are unsecured, interest-bearing at 4.10% (2016: 4.10%–5.00%) per annum and repayable on demand. Having considered the financial position of the borrowers, management assessed that the entire loans at the end of the reporting period cannot be recovered and accordingly, full impairment provision of HK$12,382,000 has been made as at 31 December 2017 (2016: HK$16,492,000).

(b) Loans to associates as at 31 December 2017 amounting to HK$50,284,000 (2016: HK$49,427,000) are unsecured and interest-free. The amortised cost of the loan at the end of the reporting period is calculated at the present value of the expected settlement from the associate in accordance with the business plan of the respective associate, discounted at the rate of return of similar financial assets. The loans are expected not to be repayable within twelve months from the end of the reporting period and accordingly, they are classified as non-current assets. Having considered the financial position of the associate and its repayment history, the management assessed that there is no indication of impairment in respect of this loan.

The remaining balance of HK$21,773,000 as at 31 December 2017 (2016: HK$23,700,000) is unsecured, interest-bearing at 8.50% (2016: 8.5%) per annum and repayable on demand. Management assessed that the loan is unlikely to be recovered and accordingly, impairment provision of HK$21,773,000 has been made as at 31 December 2017 (2016: HK$20,346,000).

(c) Loans to others as at 31 December 2017 are unsecured and composed of the followings:

- balance amounting to HK$11,963,000 (2016: HK$11,179,000) is interest-bearing at 17.00% (2016: 10.00%) per annum. The loan was originally scheduled to be repaid in October 2017. At the end of the reporting period, management expected that the amount would be recovered within one year. Having considered the financial position of the borrower, the security in place which is the pledge of 42% of equity interest in the debtor, and the on-going settlement of the interest thereon, management assessed that there is no indication of impairment in respect of this loan.

- balance amounting to HK$2,597,000 (2016: HK$5,372,000) is interest-bearing at 2.00% to 7.00% (2016: 0% to 7%) and repayable within one to four years (2016: on demand or within two to five years). As at 31 December 2016, management assessed that loan balance amounting to HK$2,474,000 could not be recovered and accordingly, impairment provision for this amount had been made. During the year ended 31 December 2017, the Group has written off this loan and the associated impairment provision. In respect of the remaining balance as at 31 December 2016 of HK$2,898,000 and the balance as at 31 December 2017 of HK$2,597,000, having considered the financial position of the borrowers and their repayment history, management assessed that there is no indication of impairment in respect of these loans; and

- the remaining balance of HK$753,000 (2016: HK$753,000) is interest-bearing at 1.50% (2016: 1.50%) per month and repayable on demand. As at 31 December 2017, management assessed that the loan is unlikely to be recovered and accordingly, impairment provision for the loan of HK$753,000 has been made (2016: nil).

## 24. FINANCE LEASE RECEIVABLES

The Group entered into agreements with customers for replacing the light tubes of their properties by the LED light tubes produced by the Group. In return, the Group is entitled to monthly income for a period of five to eight years which is arrived at on a pre-determined basis. Under the agreements, the Group is also responsible for free maintenance and replacement of LED light tubes. The agreements constitute finance leases of LED light tubes which have estimated useful life of about four to nine years. Accordingly, sales are recognised when the LED light tubes are installed in the properties. Costs related to the sales transactions are recognised in the same period. Sales revenue recognised at the commencement of the leases represents the present value of the minimum lease payments receivable from the customers over the lease period, computed at a market rate of interest.

Apart from the above, during the current year, the Group commenced the business of sales of motor vehicles. The Group entered into agreements with customers for leasing motor vehicles with Car Quotas attached for a period of three years in return for monthly income. The Car Quotas entitle the motor vehicles to be legally permitted to be used on the public road during the lease period. The agreements constitute finance leases of motor vehicles which have estimated useful life of three years. Accordingly, sales revenue is recognised at the commencement of the lease term whereas cost of sale is recognised in the same period. Sales revenue is the present value of the minimum lease payments receivable from the customers over the lease term, computed at a market rate of interest.

Finance income arising from the aforesaid finance lease arrangements is allocated over the lease period on a systematic basis reflecting a constant periodic return on the Group's net investment in the finance leases.

The analysis of the finance lease receivables is as follows:

| | **Total minimum lease payments receivable** | | **Present value of minimum lease payments receivable** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts receivable: | | | | |
| Not later than one year | **2,959** | 908 | **2,609** | 805 |
| Later than one year and not later than five years | **5,199** | 1,008 | **4,839** | 831 |
| Later than five years | **184** | 300 | **128** | 215 |
| | **8,342** | 2,216 | **7,576** | 1,851 |
| Future finance income | **(766)** | (365) | **—** | — |
| Finance lease receivables | **7,576** | 1,851 | **7,576** | 1,851 |

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Analysed into: | | |
| Amounts receivable in more than one year included in non-current assets | **4,967** | 1,046 |
| Amounts receivable within one year included in current assets | **2,609** | 805 |
| | **7,576** | 1,851 |

## 25. INVENTORIES OF PROPERTIES

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Properties under development | **729,477** | 653,369 |

As at 31 December 2017, properties under development amounting to HK$729,477,000 (2016: HK$653,369,000) are not expected to be recovered within twelve months from the end of the reporting period.

## 26. OTHER INVENTORIES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Raw materials | **72,852** | 71,317 |
| Work-in-progress | **24,556** | 22,377 |
| Finished goods | **43,247** | 52,425 |
| | **140,655** | 146,119 |

## 27. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade and bills receivables *(note (a))* | **253,619** | 223,324 |
| Less: Impairment on receivables *(note (b))* | **(6,320)** | (4,898) |
| Trade and bills receivables, net *(note (c))* | **247,299** | 218,426 |
| Other receivables | **14,344** | 15,090 |
| Prepayments and deposits *(notes (d) and (e))* | **102,078** | 93,939 |
| | **363,721** | 327,455 |
| Analysed into: | | |
| Non-current assets *(note (e))* | **63,380** | 63,380 |
| Current assets | **300,341** | 264,075 |
| | **363,721** | 327,455 |

Notes:

(a) The Group maintains a defined credit policy. For sales of goods, the Group normally allows a credit period of 30 days to 60 days to its trade customers while certain customers are granted with credit period up to 120 days. Rental receivable from tenants is payable on presentation of invoices. For taxi and car rental income, the drivers are generally required to pay monthly rental not later than the fifth of each month.

In general, trade and bills receivables that are aged below one year are not considered impaired based on management's historical experience and management would consider allowance for impairment on trade receivables which are aged one year or above.

(b) The movement in the allowance for impairment of receivables is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **4,898** | 5,359 |
| Translation adjustment | **67** | (15) |
| Impairment losses recognised | **1,706** | – |
| Impairment losses reversed | **(93)** | (258) |
| Amounts written off as uncollectible | **(258)** | (188) |
| Carrying amount at 31 December | **6,320** | 4,898 |

At the end of each reporting period, management reviews receivables for evidence of impairment on both an individual and collective basis. As of 31 December 2017, the Group's trade receivables of HK$6,320,000 (2016: HK$4,898,000) were impaired and accordingly, full allowance were made in respect of these balances. The individually impaired receivables mainly relate to customers that were in default in payment and management assessed that the entire amount of the receivable balances is unlikely to be recovered. The Group does not hold any collateral over these balances.

## 27. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(Continued)*

Notes: (Continued)

(c) The ageing analysis of trade and bills receivables which were impaired and for which allowances were made for at the end of the reporting period, based on due date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 31–60 days | **–** | 7 |
| 61–90 days | **–** | 8 |
| 181–360 days | **–** | 47 |
| Over 360 days | **6,320** | 4,836 |
| | **6,320** | 4,898 |

The ageing analysis of trade and bills receivables that are past due but are not considered to be impaired based on due date at the end of the reporting period is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 30 days or below | **41,308** | 27,635 |
| 31–60 days | **15,184** | 908 |
| 61–90 days | **10,458** | 781 |
| 91–180 days | **19,218** | 1,413 |
| 181–360 days | **1,612** | 1,030 |
| Over 360 days | **504** | 18 |
| | **88,284** | 31,785 |

As at 31 December 2017, trade and bills receivables of HK$159,015,000 (2016: HK$186,641,000) are neither past due nor impaired. These balances relate to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired relate to a number of independent customers that have a good payment record with the Group. Based on past experience, the management believes that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The Group does not hold any collateral over these balances other than rental and building management deposits from tenants of the Group's investment properties.

(d) Balances as at 31 December 2017 include temporary payment made to an associate amounting to HK$2,770,000 (2016: nil) in relation to the trading transactions as disclosed in note 51(a). These balances are unsecured and interest-free.

(e) Balances as at 31 December 2017 and 2016 include a deposit amounting to RMB50,000,000 (equivalent to HK$63,380,000) paid for acquisition of land parcels in Shunde, the PRC through acquisition of equity interest in an entity to be established in the PRC for holding the interest in those land parcels. The procedures for establishing the PRC entity and transferring the land titles are still in progress and accordingly, the amount paid is classified as "Deposit paid" under non-current assets in the consolidated statement of financial position.

## 28. AMOUNTS DUE FROM/TO ASSOCIATES/JOINT VENTURES

The amounts due are unsecured, interest-free and repayable on demand.

## 29. INVESTMENTS HELD FOR TRADING

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Listed equity securities, at fair value | **75,290** | 68,179 |
| Listed debt securities, at fair value | **–** | 50,110 |
| | **75,290** | 118,289 |

The fair values of the listed equity and debt securities are determined based on quoted market prices available on the relevant stock exchanges. Certain equity and debt securities are pledged as further detailed in note 47.

## 30. CASH AND BANK BALANCES/RESTRICTED BANK DEPOSIT/STRUCTURED BANK DEPOSITS

### (a) Cash and bank balances

Cash and bank balances include the following:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Cash at banks, in hand and deposited with financial institutions | **379,003** | 394,829 |
| Short-term bank deposits | **12,047** | 40,488 |
| | **391,050** | 435,317 |

Cash at banks earns interest at floating rates based on daily bank deposits rates.

Short-term time deposits are made for period depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

The Group's short-term bank deposits amounting to HK$12,047,000 as at 31 December 2017 are placed with banks with original maturity of three months and earn interest income at interest rate of 1.40% per annum. Out of the Group's short-term bank deposits amounting to HK$40,488,000 as at 31 December 2016, deposits of HK$5,756,000 had original maturity of three months and earned interest income at interest rates of 1.13% per annum whereas the remaining balance of HK$34,732,000 had original maturity ranged from more than three months to six months and earned interest income at interest rates ranged from 0.50% to 2.25% per annum.

## 30. CASH AND BANK BALANCES/RESTRICTED BANK DEPOSIT/STRUCTURED BANK DEPOSITS *(Continued)*

### (b) Restricted bank deposit

Restricted bank deposit represents a deposit placed in a designated bank account pursuant to the agreements entered by the Group in relation to the acquisition of land and buildings located in Guangzhou, the PRC (the "GZ Property").

On 30 October 2013, the Group entered into a sale and purchase agreement (the "Master Agreement") with an independent third party vendor (the "Vendor") and a bank to which the GZ Property had been mortgaged (the "Mortgage Bank") for acquiring the GZ Property at consideration of RMB60,000,000. The GZ Property had been pledged by the Vendor to the Mortgage Bank before the Master Agreement was entered into. Pursuant to the Master Agreement and the supplementary agreements signed on the same date, the Group placed a deposit into the designated bank account operated by the Mortgage Bank which amounted to RMB89,000,000 (equivalent to HK$113,199,000) as at 31 December 2013. Funds deposited to this designated bank account are subject to monitoring by the Mortgage Bank. Upon completion of transferring the legal title of GZ Property to the Group and settling the mortgage loan by the fund deposited into this designated bank account, the Mortgage Bank released the charge on the GZ Property.

The legal title of the GZ Property was transferred to the Group in September 2014. As at 31 December 2017, the deposit outstanding in the designated bank account amounted to RMB19,613,000, equivalent to HK$23,463,000 (2016: RMB19,330,000, equivalent to HK$21,609,000) which is requested by the Mortgage Bank for securing the potential liabilities arising from the litigation in relation to the GZ Property (note 50(b)).

### (c) Structured bank deposits

Structured bank deposits as at 31 December 2016 amounting to RMB91,800,000, equivalent to HK$102,623,000 represented bank deposits carrying a minimum interest rate of 1.40% per annum which could be enhanced to a maximum interest rate of 3.40% per annum to be determined with reference to the London Inter-Bank Offered Rate during a pre-determined period of 90 days. The structured bank deposits contained embedded derivatives representing a return which would vary with prevailing market interest rate. The directors considered that the fair value of the derivatives embedded in these structured bank deposits was minimal and hence, no derivative financial instrument was recognised in prior year.

As at 31 December 2017, cash balances and deposits of the Group denominated in RMB amounted to approximately HK$252,835,000 (2016: HK$273,121,000). RMB is not freely convertible into other currencies.

## 31. TRADE AND OTHER PAYABLES

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables *(note (a))* | **121,475** | 144,411 |
| Temporary receipts *(note (b))* | **152,322** | 143,841 |
| Other payables and accruals | **183,153** | 158,922 |
| Deposits received and receipt in advance *(note (c))* | **53,387** | 65,018 |
| | **510,337** | 512,192 |

Notes:

(a) Balances as at 31 December 2017 included payables to an associate amounting to HK$3,337,000 (2016: HK$4,240,000) which arose from the trading transactions as disclosed in note 51(a). These balances are unsecured, interest-free and due for settlement pursuant to the payment terms of the respective orders.

(b) Balances as at 31 December 2017 and 31 December 2016 included a temporary receipt of HK$124,936,000 received from a third party in relation to a proposed disposal of equity interest in a subsidiary of the Company. The transaction is subject to further negotiation with the third party at the end of the reporting period.

(c) Balances as at 31 December 2017 and 31 December 2016 included an amount of HK$25,680,000 received from a third party in relation to a proposed disposal of land parcels. Further details of the transaction are set out in note 50(d).

## 32. FINANCE LEASE PAYABLE

During the year, the Group entered into a retrofit agreement for the mechanical ventilation and air conditioning ("MVAC") system of the Group's manufacturing plant located in the PRC. Under the agreement, the contractor is responsible for the retrofit work and maintenance of the MVAC system and in return, the contractor is entitled to monthly income for a period of about five years which is arrived at according to a pre-determined basis. The agreement constitutes a finance lease arrangement.

The analysis of the finance lease payables is as follows:

| | Total minimum lease payments payable | | Present value of minimum lease payments payable | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts payable: | | | | |
| Not later than one year | **750** | – | **593** | – |
| Later than one year and not later than five years | **3,000** | – | **2,682** | – |
| Later than five years | **207** | – | **206** | – |
| | **3,957** | – | **3,481** | – |
| Future finance costs | **(476)** | – | **–** | – |
| Finance lease payable | **3,481** | – | **3,481** | – |

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Analysed into: | | |
| Amounts payable in more than one year included in non-current liabilities | **2,888** | – |
| Amounts payable within one year included in current liabilities | **593** | – |
| | **3,481** | – |

## 33. AMOUNT DUE TO A RELATED PARTY/DIRECTOR

The amounts due are unsecured, interest-free and repayable on demand.

## 34. DERIVATIVE FINANCIAL INSTRUMENTS

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Current assets** | | |
| RMB/US$ forward contract | **–** | 5,059 |

The Group entered into foreign exchange forward contracts for investment purposes. The amount to be received/settled by the Group depends on the exchange rate of US$ against RMB on the settlement dates as stipulated in the contracts.

As at 31 December 2016, the notional amount of the outstanding foreign exchange forward contract amounted to RMB200,000,000. This contract has a tenor of 12 months. The fair value of this foreign exchange forward contract that would mature in ten months after the end of last reporting period was estimated to be HK$5,059,000 (financial asset).

In September 2017, the aforesaid contract was early terminated at consideration of US$1,024,000, equivalent to HK$8,014,000 and the Group recognised a loss in respect of this contract amounting to HK$13,073,000 in the consolidated income statement for the current year.

## 35. BANK BORROWINGS

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank borrowings | | |
| Current liabilities | **738,984** | 596,898 |
| Non-current liabilities | **116,000** | 526,770 |
| | **854,984** | 1,123,668 |
| Bank borrowings | | |
| Secured *(note 47)* | **632,993** | 622,110 |
| Unsecured | **221,991** | 501,558 |
| | **854,984** | 1,123,668 |

The maturity of bank borrowings is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current liabilities | | |
| Due within one year *(note)* | **738,984** | 596,898 |
| Non-current liabilities | | |
| Due after one year but within two years | **29,000** | 526,770 |
| Due after two years but within five years | **87,000** | – |
| | **116,000** | 526,770 |
| | **854,984** | 1,123,668 |

Note: Included in bank borrowings as at 31 December 2017 was a term loan of HK$487,993,000. The loan agreement contains a clause that provides the bank with unconditional right to demand repayment at any time at its own discretion after the committed period, which would expire on 31 January 2018. Subsequent to the end of the reporting period, the Group negotiated and agreed with the bank for refinancing the term loan by granting a new term loan with principal sum of HK$488,000,000, which is repayable by 19 equal quarterly instalments plus a final settlement in March 2023. The new loan is subject to repayment on demand clause after the committed period, which will expire in May 2019.

The carrying amounts of the bank borrowings are denominated in the following currencies:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| HK$ | **816,993** | 849,110 |
| US$ | **37,991** | 274,558 |
| | **854,984** | 1,123,668 |

Among the Group's bank borrowings as at 31 December 2017, HK$221,991,000 (2016: HK$462,780,000) were arranged at fixed annual interest rates of 2.10%–3.13% (2016: 1.65%–2.52%). The remaining balance of the Group's bank borrowings of HK$632,993,000 (2016: HK$660,888,000) were arranged at floating rates of 2.91%–3.66% (2016: 1.99%–3.37%) per annum.

The Group's interest-bearing bank borrowings are carried at amortised cost.

As at 31 December 2017, the Group's bank borrowings amounted to HK$790,166,000 (2016: HK$919,023,000) were secured by personal guarantee provided by the director, Mr. Yung Kwok Kee, Billy ("Mr. Yung").

## 36. LOAN FROM NON-CONTROLLING SHAREHOLDER

The loan is unsecured, interest-free and not repayable within 12 months from the end of the reporting period.

## 37. DEFERRED TAX

Details of the deferred tax liabilities and assets recognised and movements thereon during the current and prior years are as follows:

| | Accelerated tax depreciation HK$'000 | Amortisation on intangible assets HK$'000 | Allowance on receivables HK$'000 | Revaluation of properties HK$'000 | Withholding tax HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | 682 | 50,845 | (413) | 425,170 | – | – | 476,284 |
| Translation adjustment | – | (3,224) | 3 | (30,030) | – | – | (33,251) |
| Charged/(Credited) to profit or loss *(note 10)* | 42 | (8) | (193) | 78,676 | – | – | 78,517 |
| Charged to other comprehensive income *(note 15)* | – | – | – | 800 | – | – | 800 |
| **At 31 December 2016 and 1 January 2017** | **724** | **47,613** | **(603)** | **474,616** | **–** | **–** | **522,350** |
| Translation adjustment | **–** | **3,379** | **–** | **33,011** | **304** | **(61)** | **36,633** |
| (Credited)/Charged to profit or loss *(note 10)* | **(723)** | **–** | **603** | **997** | **10,871** | **(507)** | **11,241** |
| Charged to other comprehensive income *(note 15)* | **–** | **–** | **–** | **3,134** | **–** | **–** | **3,134** |
| **At 31 December 2017** | **1** | **50,992** | **–** | **511,758** | **11,175** | **(568)** | **573,358** |

Represented by:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Deferred tax assets | **(956)** | (201) |
| Deferred tax liabilities | **574,314** | 522,551 |
| | **573,358** | 522,350 |

As at 31 December 2017, the Group has unused tax losses of approximately HK$320,371,000 (2016: HK$338,591,000) available for offset against future profits. No deferred tax assets in respect of these tax losses have been recognised in the financial statements due to the unpredictability of future profit streams.

The tax losses of the subsidiaries in Hong Kong may be carried forward indefinitely. The tax losses of the subsidiaries in other regions of the PRC and the USA may be carried forward for five years and twenty years respectively from the financial year when the corresponding loss was incurred.

As at 31 December 2017, deferred tax liabilities of approximately HK$11,175,000 have been recognised in respect of the undistributed earnings of certain PRC subsidiary amounted to approximately HK$111,746,000. Deferred tax liabilities of approximately HK$12,308,000 (2016: HK$30,271,000) have not been established for withholding taxation that would be payable on the remaining unremitted earnings of the relevant PRC subsidiaries as at 31 December 2017, as in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately HK$200,003,000 as at 31 December 2017 (2016: HK$365,597,000).

For the purposes of presentation of the financial statements, deferred tax assets and liabilities have been offset as they are related to income taxes levied by the same tax authority and the assets and liabilities are intended to be settled in net, or settled/realised simultaneously.

## 38. NON-CONTROLLING INTERESTS

The total non-controlling interests as at 31 December 2017 was HK$68,167,000 (2016: HK$57,653,000), which is attributed to certain subsidiaries that are not 100% owned by the Group.

In the opinion of the directors, the non-controlling interests of PFC Device Inc. and Shunde Hua Feng Stainless Steel Welded Tubes Ltd ("Shunde Hua Feng") as at 31 December 2017 are material.

Summarised financial information of PFC Device Inc., before intra-group eliminations, is presented below:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| **Year ended 31 December** | | |
| Revenue | **215,226** | 177,264 |
| Profit/(Loss) for the year | **4,357** | (625) |
| Total comprehensive income for the year | **16,525** | (5,446) |
| Profit for the year attributable to non-controlling interests | **1,303** | 596 |
| Total comprehensive income for the year attributable to non-controlling interests | **4,888** | (962) |
| Dividend paid to non-controlling interests | **–** | – |
| Cash flows from operating activities | **1,867** | 11,168 |
| Cash flows used in investing activities | **(14,829)** | (12,859) |
| Cash flows (used in)/from financing activities | **(31,079)** | 66,488 |
| Net cash (outflow)/inflow | **(44,041)** | 64,797 |
| **As at 31 December** | | |
| Current assets | **144,018** | 168,945 |
| Non-current assets | **83,123** | 75,488 |
| Current liabilities | **(34,327)** | (33,297) |
| Non-current liabilities | **–** | (38,778) |
| | **192,814** | 172,358 |
| Accumulated non-controlling interests | **57,401** | 50,673 |

## 38. NON-CONTROLLING INTERESTS *(Continued)*

Summarised financial information of Shunde Hua Feng, before intra-group eliminations, is presented below:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **Year ended 31 December** | | |
| Revenue | – | – |
| Profit for the year | 37,769 | 2,382 |
| Total comprehensive income for the year | 38,242 | 3,280 |
| Profit for the year attributable to non-controlling interests | 3,739 | 236 |
| Total comprehensive income for the year attributable to non-controlling interests | 3,786 | 325 |
| Dividend paid to non-controlling interests | – | – |
| Cash flows used in operating activities | (82,048) | (6,458) |
| Cash flows from investing activities | 82,056 | 6,101 |
| Net cash inflow/(outflow) | 8 | (357) |
| **As at 31 December** | | |
| Current assets | 98,916 | 17,050 |
| Non-current assets | – | 27,243 |
| Current liabilities | (11,550) | (1,163) |
| Non-current liabilities | (61,593) | (55,599) |
| | 25,773 | (12,469) |
| Accumulated non-controlling interests | 10,766 | 6,980 |

## 39. SHARE CAPITAL

| | 2017 Number of shares '000 | 2017 Nominal value | 2016 Number of shares '000 | 2016 Nominal value |
|---|---|---|---|---|
| **Authorised** | | | | |
| *Ordinary share of US$0.00002 each* | | | | |
| Balance at the beginning and end of the year | 600,000 | US$12,000 | 600,000 | US$12,000 |
| **Issued and fully paid** | | | | |
| *Ordinary share of US$0.00002 each* | | | | |
| Balance at the beginning and end of the year | 523,485 | US$10,470 | 523,485 | US$10,470 |
| Shown in the financial statements as | | HK$82,000 | | HK$82,000 |

All shares are equally eligible to receive dividends and to the repayment of capital and each share is entitled to one vote at shareholders' meeting of the Company.

## 40. RESERVES

### The Group

Details of the movements in the Group's reserves are set out in the consolidated statement of changes in equity. The nature and purpose of the reserves are as follows:

#### Capital reserve

Capital reserve of the Group represents the capital contributions from the shareholders of the Company.

#### Available-for-sale financial assets revaluation reserve

Available-for-sale financial assets revaluation reserve comprises the cumulative net changes in the fair value of available-for-sale financial assets and is dealt with in accordance with the accounting policies in notes 4.13 and 4.14.

#### Share option reserve

Share option reserve comprises the cumulative expenses recognised on granting of share options over the vesting period and is dealt with in accordance with the accounting policy in note 4.24.

#### Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy in note 4.17.

#### Assets revaluation reserve

Assets revaluation reserve has been set up in accordance with the accounting policies in note 4.7.

#### Statutory reserve

In accordance with the relevant PRC rules and regulations, certain subsidiaries of the Company are required to appropriate certain percentages of their profits after tax to the respective statutory reserves. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to make good previous years' losses, if any, or to increase the paid-up capital of the respective subsidiaries, and may be used for capital expenditure on staff welfare facilities, as appropriate.

### The Company

Details of the movements in the Company's reserves during the current and prior years are as follows:

| | **Dividend reserve HK$'000** | **Contributed surplus HK$'000** | **Retained profits HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| At 1 January 2016 | 2,617 | 896,524 | 432,772 | 1,331,913 |
| Loss and total comprehensive income for the year | – | – | (11,999) | (11,999) |
| Dividend paid *(note 12(b))* | (2,617) | – | – | (2,617) |
| Proposed final dividend *(note 12(a))* | 2,617 | – | (2,617) | – |
| **At 31 December 2016 and 1 January 2017** | **2,617** | **896,524** | **418,156** | **1,317,297** |
| Loss and total comprehensive income for the year | **–** | **–** | **(17,807)** | **(17,807)** |
| Dividend paid *(note 12(b))* | **(2,617)** | **–** | **–** | **(2,617)** |
| Proposed final dividend *(note 12(a))* | **2,617** | **–** | **(2,617)** | **–** |
| **At 31 December 2017** | **2,617** | **896,524** | **397,732** | **1,296,873** |

#### Contributed surplus

Contributed surplus of the Company represents the capital contributions from the shareholders of the Company.

## 41. SHARE OPTION SCHEMES

The share option schemes adopted by the subsidiaries are detailed as follows:

### (a) Netlink Assets Limited

Netlink Assets Limited ("Netlink"), a wholly-owned subsidiary of the Company, operates a share option scheme (the "Netlink Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of Netlink's operations. Eligible participants of the Netlink Scheme include the directors, employees and consultants of Netlink and any of its parent or subsidiaries. Netlink Scheme was adopted on 20 August 2014 and will continue in effect for a term of 10 years from the later of (a) the effective date of Netlink Scheme, or (b) the earlier of the most recent approval from the board or shareholder of an increase in the number of shares received for issuance under Netlink Scheme.

The maximum aggregate number of shares of Netlink ("Netlink Shares") that may be subject to the grant of options under Netlink Scheme is 13,100,000 shares. The exercise price per Netlink Share to be issued pursuant to the exercise of the option will be determined by the administrator, but will be not less than 100% of the fair market value of the applicable Netlink Shares on the date of grant and subject to certain condition specified in Netlink Scheme.

The exercise period and the vesting schedule of the options is determined by the administrator.

The movements of the share options granted under Netlink Scheme during the current and prior years are as follows:

| | | | | **Number of options** | | | |
|---|---|---|---|---|---|---|---|
| **Grantee** | **Date of grant** | **Exercisable period** | **Exercise price** | **As at 1 January 2017** | **Granted during the year** | **Forfeited during the year** | **As at 31 December 2017** |
| Mr. Yung | 20 August 2014 | From the date of vesting to 20 August 2024 | US$1 | **2,648,233** | **–** | **–** | **2,648,233** |
| Mr. Chow Kai Chiu, David ("Mr. Chow") | 20 August 2014 | From the date of vesting to 20 August 2024 | US$1 | **529,647** | **–** | **–** | **529,647** |
| | | | | **3,177,880** | **–** | **–** | **3,177,880** |

| | | | | Number of options | | | |
|---|---|---|---|---|---|---|---|
| Grantee | Date of grant | Exercisable period | Exercise price | As at 1 January 2016 | Granted during the year | Forfeited during the year | As at 31 December 2016 |
| Mr. Yung | 20 August 2014 | From the date of vesting to 20 August 2024 | US$1 | 2,648,233 | – | – | 2,648,233 |
| Mr. Chow | 20 August 2014 | From the date of vesting to 20 August 2024 | US$1 | 529,647 | – | – | 529,647 |
| Other directors of Netlink | 20 August 2014 | From the date of vesting to 20 August 2024 | US$1 | 3,011,041 | – | (3,011,041) | – |
| Employees | 20 August 2014 | From the date of vesting to 20 August 2024 | US$1 | 890,157 | – | (890,157) | – |
| | 25 June 2015 | From the date of vesting to 25 June 2025 | US$1 | 827,147 | – | (827,147) | – |
| | | | | 7,906,225 | – | (4,728,345) | 3,177,880 |

During the year ended 31 December 2017, no share option under Netlink Scheme was granted (2016: nil). No share option expense was recognised in profit or loss for the current and prior years.

## 41. SHARE OPTION SCHEMES *(Continued)*

### (a) Netlink Assets Limited *(Continued)*

The fair values of the options granted in prior years were estimated at the dates of grant using Black Scholes Model taking into account the terms and conditions which the options were granted. The following shows the significant inputs used in the model:

| Date of grant | 25 June 2015 | 20 August 2014 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Historical volatility | 46.56% | 45.57% |
| Risk-free interest rate | 1.801% | 1.859% |
| Expected life of option | 10 years | 10 years |

The volatility of a combination of companies of similar nature and size were used to estimate the expected volatility of Netlink Shares. The expected life of the option is based on the historical data and is not indicative of the exercise patterns that may occur.

No option was exercised during the current and prior years. As at 31 December 2017, there were 3,177,880 (2016: 3,177,880) outstanding share options under Netlink Scheme. The weighted average remaining contractual life of the outstanding options was seven years (2016: eight years). Out of the total number of options outstanding as at 31 December 2017, 3,177,880 (2016: 3,144,777) options were vested and exercisable. The exercise in full of the outstanding share options would, under the present capital of Netlink, result in issue of additional 3,177,880 (2016: 3,177,880) Netlink Shares.

### (b) PFC Device Holdings Limited

PFC Device Holdings Limited ("PFC Device Holdings"), a non wholly-owned subsidiary of the Company, operated a share option scheme (the "PFC Option Plan") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of its operations. Eligible participants of the PFC Option Plan include the directors, employees and consultants of PFC Device Holdings and any of its parents or subsidiaries. The PFC Option Plan was adopted on 8 December 2014 and will continue in effect for a term of ten years from the later of (a) the effective date of PFC Option Plan, or (b) the earlier of the most recent approval from the board or shareholder of an increase in the number of shares reserved for issuance under PFC Option Plan.

The maximum number of common shares of PFC Device Holdings that may be subject to the grant of options under the PFC Option Plan is 4,895,000 shares. The exercise price per subscription share is determined by the administrator of the PFC Option Plan when options are granted. The exercise period, the vesting schedule and the vesting commencement date of the options are determined by the administrator.

On 7 January 2015, an aggregate of 615,755 options (the "PFC Share Options") were granted under PFC Option Plan. The fair value of the PFC Share Options granted on 7 January 2015 was US$99,000 (equivalent to HK$767,000). Such fair value was estimated at the date of grant using Black Scholes Model taking into account the terms and conditions of the options granted. The following table shows the significant inputs used in the model:

| | Lot 1 | Lot 2 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Historical volatility | 30.913% | 38.331% |
| Risk-free interest rate | 0.2566% | 1.2226% |
| Expected life of option | 1.12 years | 3.73 years |

The historical volatility of a combination of companies of similar nature were used to estimate the historical volatility of the shares of PFC Device Holdings.

## 41. SHARE OPTION SCHEMES *(Continued)*

### (b) PFC Device Holdings Limited *(Continued)*

The movements of the share options granted under PFC Option Plan in prior year is as follows:

| | | | Number of options | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grantee | Date of grant | Exercise price | As at 1 January 2016 | Granted during the year | Exercised during the year | Forfeited during the year | Cancelled during the year | As at 31 December 2016 |
| Directors of PFC Device Holdings | 7 January 2015 | US$1 | 144,556 | – | (136,223) | – | (8,333) | – |
| Employees | 7 January 2015 | US$1 | 421,199 | – | (417,032) | – | (4,167) | – |
| | | | 565,755 | – | (553,255) | – | (12,500) | – |

On 15 February 2016, PFC Device Holdings served a written notice to inform the eligible grantees to exercise the PFC Share Options not later than 19 February 2016. As of 19 February 2016, 553,255 vested PFC Share Options had been exercised and the eligible grantees had subscribed for an aggregate of 553,255 shares of PFC Device Holdings. The gross proceeds received by PFC Device Holdings amounted to US$553,000 (equivalent to HK$4,292,000) whereas the fair value of those exercised PFC Share Options at the date of grant amounted to US$89,000 (equivalent to HK$691,000), of which HK$654,000 was attributable to the owners of the Company.

Pursuant to the written resolutions passed by the board of directors of PFC Device Holdings dated 15 March 2016, the PFC Option Plan had been terminated with effect from 19 February 2016 and those options remained unexercised on 19 February 2016 were cancelled and the recognition of share-based payment expense for those cancelled options amounting to US$2,000 (equivalent to HK$16,000) was accelerated in profit or loss during the year ended 31 December 2016 with the corresponding amount being recognised in share option reserve. Upon termination of the PFC Option Plan, the balance of share option reserve attributable to owners of the Company amounting to US$2,000 (equivalent to HK$16,000) was transferred to retained profits.

The PFC Option Plan was terminated on 19 February 2016 and accordingly, there was no outstanding option under this plan as at 31 December 2016.

### (c) PFC Device Inc.

Pursuant to resolutions passed by the shareholder of PFC Device Inc. on 19 September 2016, the adoption of the share option scheme of PFC Device Inc. (the “PFC Device Option Scheme”) was approved to enable PFC Device Inc. to grant options to eligible persons as incentives or rewards for their contributions or potential contribution to PFC Device Inc. and its subsidiaries (“PFC Group”). Eligible participants of PFC Device Option Scheme include the directors, employees, executives or officers of PFC Group and any suppliers, consultants, agents, advisers and related entitles to PFC Group.

The PFC Device Option Scheme shall be valid and effective for a period of ten years commencing from the date on which the PFC Device Option Scheme becomes unconditional. The subscription price shall be such price as the board of directors of PFC Device Inc. in its absolute discretion shall determine, provided that such price will not be less than the highest of: (a) the closing price of the shares of PFC Device Inc. as stated in the Stock Exchange’s daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (b) the average of the official closing prices of the shares of PFC Device Inc. as stated in the Stock Exchange’s daily quotation sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a share of PFC Device Inc.

The total number of shares of PFC Device Inc. which may be issued upon exercise of all options under the PFC Device Option Scheme must not in aggregate exceed 10% of the total number of shares of PFC Device Inc. in issue at the time dealings in the shares first commence on the Stock Exchange which amounts to 160,000,000 Shares.

## 41. SHARE OPTION SCHEMES *(Continued)*

### (c) PFC Device Inc. *(Continued)*

On 22 March 2017, options to subscribe for an aggregate of 41,794,191 shares of PFC Device Inc. were granted under PFC Device Option Scheme to certain directors, senior management, employees and consultants of PFC Device Inc. which shall vest based on the vesting schedules specified in the offer documents of the respective grantees. Share options granted to non-employee participants are for their contributions to the PFC Group in respect of providing services similar to those rendered by its employees.

The fair value of the share options granted by PFC Device Inc. under the PFC Device Option Scheme (the "PFC Device Share Options") on 22 March 2017 was HK$3,271,000, of which HK$2,541,000 was charged to profit or loss for the year ended 31 December 2017. The fair value of the PFC Device Share Options granted attributable to owners of the Company amounting to HK$1,793,000 was credited to the share option reserve. The fair value was estimated by independent professional valuer at the date of grant using the Binomial Model taking into account the terms and conditions of the options granted. The following table shows the significant inputs used in the model:

| | |
|---|---|
| Dividend yield | 0% |
| Historical volatility | 43.032% |
| Risk-free interest rate | 1.636% |
| Expected life of option | 10 years |

The historical volatility of a combination of companies of similar nature was used to estimate the historical volatility of the shares of PFC Device Inc.

The movements of the share options granted under PFC Device Option Scheme during the current year are as follows:

| | | | Number of options | | | | |
|---|---|---|---|---|---|---|---|
| **Grantee** | **Date of grant** | **Exercise price** | **As at 1 January 2017** | **Granted during the year** | **Exercised during the year** | **Forfeited during the year** | **As at 31 December 2017** |
| Directors of PFC Device Inc. | 22 March 2017 | HK$0.165 | **–** | **8,208,343** | **–** | **–** | **8,208,343** |
| Employees | 22 March 2017 | HK$0.165 | **–** | **31,335,848** | **(8,270,000)** | **(2,960,000)** | **20,105,848** |
| Consultants | 22 March 2017 | HK$0.165 | **–** | **2,250,000** | **(150,000)** | **–** | **2,100,000** |
| | | | **–** | **41,794,191** | **(8,420,000)** | **(2,960,000)** | **30,414,191** |

The closing price of the shares of PFC Device Inc. immediately before the date of grant of share options was HK$0.172. The share options granted on 22 March 2017 are valid and effective for a period of ten years from date of acceptance on 1 April 2017 subject to vesting requirements that the options shall be vested by stages which last for nine months to 3.25 years.

During the current year, options to subscribe for 8,420,000 shares of PFC Device Inc. were exercised which resulted in the issue of 8,420,000 new ordinary shares of PFC Device Inc. The weighted average closing price of the shares of PFC Device Inc. immediately at the date on which the share options were exercised was HK$0.210. The fair value of those exercised PFC Device Share Options at the date of grant attributable to owners of the Company was HK$446,000.

In addition, during the current year, options to subscribe for 2,960,000 shares of PFC Device Inc. were forfeited upon the resignation of the relevant senior management and employees of PFC Group. The fair value of those forfeited and vested PFC Device Share Options at the date of grant attributable to owners of the Company was HK$51,000.

As at 31 December 2017, there were 30,414,191 share options outstanding under the PFC Device Option Scheme. The weighted average remaining contractual life of these options was 9.25 years. Out of the total options outstanding as at 31 December 2017, options to subscribe for 15,980,143 shares vested and were exercisable by the grantees by giving notice in writing to PFC Device Inc. The exercise in full of these outstanding share options would, under the present capital structure of PFC Device Inc., result in the issue of 30,414,191 additional ordinary shares of PFC Device Inc.

## 42. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

| | NOTES | As at 31 December 2017 HK$'000 | As at 31 December 2016 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Investment properties | | **100,600** | 92,250 |
| Property, plant and equipment | | **4,568** | 4,982 |
| Interests in subsidiaries | | **9,191** | 9,191 |
| Deposit paid | | **63,380** | 63,380 |
| Available-for-sale financial assets | | **380** | 380 |
| Other assets | | **71,550** | 66,190 |
| | | **249,669** | 236,373 |
| **Current assets** | | | |
| Other receivables, prepayments and deposits | | **5,852** | 4,855 |
| Loans receivable | | **–** | 3,354 |
| Amounts due from subsidiaries | | **2,657,637** | 2,743,783 |
| Amount due from a joint venture | | **7,450** | – |
| Derivative financial instruments | | **–** | 5,059 |
| Cash and bank balances | | **32,644** | 22,586 |
| | | **2,703,583** | 2,779,637 |
| **Current liabilities** | | | |
| Other payables and accruals | | **149,804** | 147,949 |
| Amounts due to subsidiaries | | **660,413** | 543,221 |
| Amount due to a director | | **29,087** | 26,460 |
| Bank borrowings | | **700,993** | 492,688 |
| | | **1,540,297** | 1,210,318 |
| **Net current assets** | | **1,163,286** | 1,569,319 |
| **Non-current liabilities** | | | |
| Bank borrowings | | **116,000** | 487,992 |
| Deferred tax liabilities | | **–** | 321 |
| | | **116,000** | 488,313 |
| **Net assets** | | **1,296,955** | 1,317,379 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *39* | **82** | 82 |
| Reserves | *40* | **1,296,873** | 1,317,297 |
| **Total equity** | | **1,296,955** | 1,317,379 |

On behalf of the directors

**YUNG KWOK KEE, BILLY**
*Director*

**CHOW KAI CHIU, DAVID**
*Director*

## 43. ACQUISITION OF SUBSIDIARIES

On 29 December 2016, Appeon Corporation (HK) Limited ("Appeon Corporation"), a former joint venture of the Group, entered into a share buyback agreement (the "Agreement") with the joint venture partners holding an aggregate of 48.82% equity interest of Appeon Corporation (the "Venturers") for acquiring their equity interests in Appeon Corporation (the "Acquisition"). Before the Acquisition, the issued share capital of Appeon Corporation was held as to 51.18% by the Group and 48.82% by the Ventuers and Appeon Corporation was accounted for as a joint venture by the Group. Upon completion of the Acquisition, the Group's equity interest in Appeon Corporation had increased from 51.18% to 100% and Appeon Corporation becomes an indirect wholly-owned subsidiary of the Company. Appeon Corporation is a limited liability company incorporated in Hong Kong and is principally engaged in investment holding, sale of software licence and provision of technical services. The subsidiary of Appeon Corporation, namely艾普陽軟件（深圳）有限公司, is a wholly-foreign owned enterprise established in the PRC and is principally engaged in computer software and hardware development. The Acquisition was completed on 30 December 2016 and the consideration for the Acquisition was HK$6,984,000.

The following table summarises the consideration payable for Appeon Corporation, the fair value of assets acquired, liabilities assumed at the completion date and gain arising from the acquisition of Appeon Corporation.

| | 2016<br>HK$'000 |
|---|---|
| Aggregate of consideration transferred and fair value of previously held equity interest: | |
| Consideration pursuant to the Agreement | 6,984 |
| Fair value of previously held 51.18% equity interest | 7,425 |
| | 14,409 |

| | 2016<br>HK$'000 |
|---|---|
| Recognised amounts of identifiable assets acquired and liabilities assumed: | |
| Property, plant and equipment | 716 |
| Intangible assets | 2,586 |
| Trade and other receivables, prepayments and deposits | 2,592 |
| Cash and bank balances | 15,167 |
| Trade and other payables | (6,652) |
| Total identifiable net assets acquired | 14,409 |

| | 2016<br>HK$'000 |
|---|---|
| Gain arising from acquisition of subsidiaries: | |
| Gain on re-measuring the previously held 51.18% equity interest at fair value | 479 |

| | 2016<br>HK$'000 |
|---|---|
| Consideration paid during the year | — |
| Cash and bank balances acquired | 15,167 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 15,167 |

The fair value of the intangible assets at the date of the completion had been determined by the directors with reference to valuation conducted by Roma Appraisals Limited, independent professionally qualified valuer.

The fair value of trade and other receivables amounted to HK$2,592,000, which represented their gross contractual amounts.

## 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

The acquisition-date fair value of the Group's 51.18% equity interest in Appeon Corporation before the Acquisition amounted to HK$7,425,000. The Group recognised a gain of HK$479,000 as a result of re-measuring such previously held equity interest which was included in "Other gains or losses—Gain arising from acquisition of subsidiaries" in the consolidated income statement.

As at 31 December 2016, the consideration amounting to HK$6,984,000 remained unpaid and was included in trade and other payables in the consolidated statement of financial position. The consideration was subsequently settled in January 2017.

For the year ended 31 December 2016, Appeon Corporation and its subsidiaries did not contribute any revenue to the Group but has contributed profit amounting to HK$1,847,000 to the Group.

## 44. DISPOSAL OF SUBSIDIARIES/ DEEMED DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

(a) During the year ended 31 December 2016, the directors of the Company applied to the Listing Committee of the Stock Exchange for a proposed listing of the Group's power discrete semiconductors business by way of placing of the shares of PFC Device Inc. on GEM of the Stock Exchange. The Listing was achieved by capitalisation issue of 1,186,685,592 ordinary shares of PFC Device Inc. and placing of 400,000,000 ordinary shares of PFC Device Inc. at placing price of HK$0.20 per placing share (the "Placing"). The shares of PFC Device Inc. have been listed on GEM of the Stock Exchange since 7 October 2016. Upon completion of the Listing, the Group's equity interest in PFC Device Inc. was diluted from 94.1% to 70.6%.

| | 2016<br>HK$'000 |
|---|---|
| Net proceeds from the Placing shared by the Group | 50,420 |
| Deemed disposal of net assets of PFC Device Inc. arising from dilution of equity interest | (23,697) |
| Difference | 26,723 |

PFC Device Inc. remains a subsidiary of the Company and the difference arising from the dilution of equity interest is accounted for as equity transaction and is dealt with in retained profits.

| | 2016<br>HK$'000 |
|---|---|
| Proceed from the Placing | 80,000 |
| Less: Share issue expense | (8,583) |
| Cash inflow of cash and cash equivalents in respect of the deemed disposal included in cash flows from investing activities | 71,417 |

## 44. DISPOSAL OF SUBSIDIARIES/ DEEMED DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY *(Continued)*

(b) On 25 April 2016, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 100% equity interest in Charm Harvest Development Limited ("Charm Harvest"), an indirect wholly-owned subsidiary of the Company. The consideration of the disposal was HK$57,000,000. Charm Harvest is a limited company incorporated in Hong Kong and is principally engaged in property investment. The disposal was completed on 28 June 2016.

The net gain arising from the disposal of Charm Harvest amounting to HK$4,248,000 was included in "Other gains or losses – Gain arising from disposal of subsidiaries" in the consolidated income statement and is calculated as follows:

| | 2016<br>HK$'000 |
|---|---|
| Consideration pursuant to agreement | 57,000 |
| Less: Consideration for debt settlement | (171) |
| Net consideration for transferring the equity interest in Charm Harvest | 56,829 |
| Net assets disposed of | (51,829) |
| Gain on disposal | 5,000 |
| Less: Transaction costs | (752) |
| Gain on disposal net of transaction costs | 4,248 |

The net assets of Charm Harvest on the date of disposal were as follows:

| | 2016<br>HK$'000 |
|---|---|
| Investment property | 52,000 |
| Prepayments and deposits | 21 |
| Other payables and accruals | (188) |
| Taxation liabilities | (4) |
| Net assets disposed of | 51,829 |

| | 2016<br>HK$'000 |
|---|---|
| Cash consideration received during the year | 56,829 |
| Cash and bank balances disposed of | – |
| Net inflow of cash and cash equivalents in respect of the disposal included in cash flows from investing activities | 56,829 |
| Transaction costs of the disposal included in cash flows from operating activates | (752) |
| | 56,077 |

## 44. DISPOSAL OF SUBSIDIARIES/ DEEMED DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY *(Continued)*

(c) On 29 December 2017, the Group entered into a share transfer agreement in relation to the disposal of 100% equity interest in Appeon Corporation. The consideration of the disposal is approximately US$210,000, equivalent to approximately HK$1,637,000.

The gain arising from the disposal of Appeon Corporation of HK$703,000 was included in "Other gains or losses – Gain arising from disposal of subsidiaries" in the consolidated income statement and is calculated as follows:

| | **2017** **HK$'000** |
|---|---|
| Consideration pursuant to agreement | **1,637** |
| Net assets disposed of | **(1,157)** |
| Release of translation reserve upon disposal of Appeon Corporation | **223** |
| Gain on disposal | **703** |

The net assets of Appeon Corporation on the date of disposal were as follows:

| | **2017** **HK$'000** |
|---|---|
| Property, plant and equipment | **436** |
| Trade and other receivables | **217** |
| Cash and bank balances | **1,696** |
| Trade and other payables | **(1,192)** |
| | **1,157** |

| | **2017** **HK$'000** |
|---|---|
| Consideration settled during the year | **–** |
| Cash and bank balances disposed of | **(1,696)** |
| Net outflow of cash and cash equivalents arising from the disposal included in cash flows from investing activities | **(1,696)** |

The consideration for the disposal remained unsettled as at 31 December 2017 and was included in "Other receivables" in the consolidated statement of financial position. The outstanding consideration of HK$1,637,000 was subsequently settled in June 2018.

## 45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

As mentioned in note 32, the Group entered into a finance lease arrangement in relation to the retrofit work and maintenance of the MVAC system of the Group's manufacturing plant located in the PRC. The capital value of the MVAC system at the inception of the lease was HK$5,326,000. As at 31 December 2017, the net carrying amount of the aforesaid MVAC system was HK$5,237,000.

In addition, during the year, the Group has invested in a joint venture with investment cost of HK$5,871,000, of which HK$1,752,000 was settled by cash payment whereas the remaining balance of HK$4,119,000 was payable as at the end of the reporting period.

### (b) Reconciliation of liabilities arising from financing activities is as follows:

| | Bank borrowings HK$'000 *(note 35)* | Finance lease payables HK$'000 *(note 32)* | Amounts due to a director HK$'000 *(note 33)* | Loan from non-controlling shareholder HK$'000 *(note 36)* |
|---|---|---|---|---|
| At 1 January 2017 | **1,123,668** | **–** | **38,460** | **5,369** |
| Changes from cash flows: | | | | |
| Proceeds from new bank loans | **501,042** | **–** | **–** | **–** |
| Repayment of bank loans | **(770,529)** | **–** | **–** | **–** |
| Advances received | **–** | **–** | **2,739** | **–** |
| Repayment of advances | **–** | **–** | **(5,025)** | **–** |
| Payment of capital element of finance lease | **–** | **(1,845)** | **–** | **–** |
| Payment of interest element of finance lease | **–** | **(14)** | **–** | **–** |
| Other borrowing costs paid | **(26,876)** | **–** | **–** | **–** |
| Total changes from financing cash flows: | **(296,363)** | **(1,859)** | **(2,286)** | **–** |
| Exchange adjustments: | **803** | **–** | **–** | **729** |
| Other changes: | | | | |
| Interest expenses | **26,876** | **–** | **–** | **–** |
| Finance charge on finance lease payable | **–** | **14** | **–** | **–** |
| Service fee to a director (note 51(a)) | **–** | **–** | **4,913** | **–** |
| New finance lease | **–** | **5,326** | **–** | **–** |
| | **26,876** | **5,340** | **4,913** | **–** |
| At 31 December 2017 | **854,984** | **3,481** | **41,087** | **6,098** |

## 46. RETIREMENT BENEFITS SCHEMES

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

The employees of the subsidiaries of the Company which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total expenses recognised in profit or loss of HK$9,335,000 (2016: HK$8,121,000) represent contributions paid/payable to these schemes by the Group in the current year.

## 47. PLEDGE OF ASSETS

Other than the negative pledges disclosed in notes 14 and 15, the Group has pledged the following assets and assigned rental income from leasing of its investment properties to secure for the general banking and other loan facilities granted to the Group:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Investment properties | **1,666,769** | 1,555,603 |
| Property, plant and equipment | **2,632** | 2,348 |
| Prepaid lease rental on land | **7,403** | 7,176 |
| Investments in equity securities | **127,580** | 89,920 |
| | **1,804,384** | 1,655,047 |

The issued share capital of a subsidiary held by the Company were pledged to banks to secure for the banking facilities granted to the Group. The aggregate net asset value of the subsidiary as at 31 December 2017 was approximately HK$1,190 million (2016: HK$1,122 million).

## 48. OPERATING LEASE ARRANGEMENTS

### As lessee

The Group leases certain of its manufacturing plants and office properties under operating leases arrangements. Leases of these properties are negotiated for period ranging from one to four years (2016: one to five years), and rentals are fixed over the contracted period. At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises payable as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **3,412** | 3,574 |
| In the second to fifth year, inclusive | **1,305** | 2,687 |
| | **4,717** | 6,261 |

### As lessor

The Group leases its investment properties (note 14) under operating lease arrangements with leases negotiated for period ranging from one year to twenty-four years (2016: one year to twenty-four years). At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments receivable as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **89,001** | 81,636 |
| In the second to fifth year, inclusive | **94,731** | 59,399 |
| Over five years | **25,493** | 5,206 |
| | **209,225** | 146,241 |

## 49. OTHER COMMITMENTS

At the end of the reporting period, the Group had other significant commitments as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contracted for but not provided in the financial statements: | | |
| Acquisition of property, plant and equipment | **4,538** | 10,803 |
| Acquisition of equity interest | **179,445** | 167,685 |
| Property development | **19,883** | 44,459 |
| | **203,866** | 222,947 |

## 50. CONTINGENT LIABILITIES

(a) A lawsuit brought by a party (the "Party") in 2014 alleging that the registration of the legal titles of the GZ Property passed to the Group as mentioned in note 30(b) being illegal and requesting the PRC land bureau to revoke the certificates of the GZ Property issued by it to the Group. The lawsuit is still in progress at the end of the reporting period. Based on the advice from a PRC legal counsel, the transfer and the registration of the titles of the GZ Property are proper and the Group has legal titles and all relevant rights over the GZ Property since the transfer of titles is completed. Accordingly, the directors are of the opinion that the lawsuit would not result in significant financial impact to the Group.

(b) The Group has undertaken to bear the legal and professional fees as well as any economic obligation arising from the lawsuit initiated by the Mortgage Bank as referred to in note 30(b) against the Party as mentioned in note (a) above regarding the termination of the sale and purchase agreement entered into by the Mortgage Bank and the Party in 2007. A deposit amounting to RMB19,613,000 (equivalent to HK$23,463,000) as at 31 December 2017 (2016: RMB19,330,000 (equivalent to HK$21,609,000)) has been placed by the Group in the bank account designated by the Mortgage Bank to secure for the undertaking. Based on the advice from the PRC legal counsel, the directors are of the opinion that such undertaking would not result in significant financial impact to the Group.

(c) In 2015, the Group acquired a land parcel in Guangzhou, the PRC (the "GZ Land") as mentioned in note 27(e) for property development and the GZ Land has been occupied by certain tenants. To prepare for the property development project, lawsuits were brought by the Group to request those tenants to move out of the GZ Land and certain tenants claim the Group for compensation. During the year ended 31 December 2016, the court made a decision that the tenants should return the GZ Land to the Group. During the year ended 31 December 2017, the Group and the tenants agreed to resolve the dispute by commercial settlement pursuant to which the Group paid compensation amounting to HK$1,407,000 to the tenants and the tenants returned the GZ Land to the Group.

(d) During the year ended 31 December 2015, the Group entered into sale and purchase agreement with an independent third party to dispose of certain land parcels in Hong Kong which had been held by the Group for property development. The consideration for the disposal of those land parcels amounted to HK$26,600,000. However, the directors have come to know that there may have potential legality issue in respect of the titles of those land parcels which may therefore render the sale and purchase agreement ineffective. As assessed by the directors, it is uncertain as to when the legality issue of those land titles can be addressed. Accordingly, the Group has written down the net carrying amount of the concerned land parcels during the year ended 31 December 2015 which amounted to HK$17,417,000 and recorded the consideration paid by the buyer as deposit received under "Trade and other payables". Consideration paid by the buyer amounted to HK$25,680,000 as at 31 December 2017 (2016: HK$25,680,000). Based on the current assessment of the directors, it is still uncertain as to when potential legality issue of the land parcels can be addressed, which is subject to latest development of government policies and related legislation. As assessed by the directors, claims, if any, airing from this potential land legality issue would not result in material effect to the financial statements of the Group.

## 51. RELATED PARTY TRANSACTIONS

Transactions between the entities among the Group have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties including key management personnel are disclosed below.

(a) Save as disclosed elsewhere in these financial statements, the Group had the following significant transactions with related parties:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Service fee paid to a director *(note)* | **4,913** | 5,025 |
| Goods sold to an associate | **2** | 406 |
| Raw materials and goods purchased from an associate | **41,791** | 37,596 |
| Subcontracting fee paid to an associate | **–** | 17 |
| Interest income from an associate | **1,849** | 1,821 |
| Management fee received from joint ventures | **7,450** | – |

Note:

Service fee was paid to Mr. Yung, director of the Company, for providing personal guarantee to banks in respect of the banking facilities granted to the Group, which is charged at the rate of 0.38% (2016: 0.38%) on the amount of facilities granted.

## 51. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel:

The remuneration of members of key management were as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, allowances and other benefits | **34,174** | 27,209 |
| Equity-settled share-based payment expense | **155** | – |
| Contributions to defined contribution retirement plan | **833** | 749 |
| | **35,162** | 27,958 |

## 52. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a total of 4,346,250 PFC Device Share Options were exercised which resulted in the issue of 4,346,250 new ordinary shares of PFC Device Inc. As a result of the exercise of these PFC Device Share Options, the Group's equity interests is diluted from 70.23% to 70.04%.

In addition, subsequent to the end of the reporting period and up to the date of this report, the Group has disposed of 55,030,000 shares of PFC Device Inc. at aggregate consideration of approximately HK$14 million. As a result of the disposal, the Group's equity interest in PFC Device Inc. is diluted from 70.23% to 66.63%.

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 qualifying entities will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The two-tiered profits tax rates regime will be applicable to a nominated quantifying entity in the Group in the coming financial year.

## 53. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's financial stability and growth.

The Group monitors its capital structure on the basis of gearing ratio i.e. net debt to equity. Net debt includes borrowings less cash and bank balances and restricted bank deposit. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The gearing ratios of the Group as at 31 December 2017 and 2016 were as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Debts | **854,984** | 1,123,668 |
| Less: cash and bank balances and restricted bank deposit | **(414,513)** | (456,926) |
| Net debts | **440,471** | 666,742 |
| Capital represented by total equity | **3,430,885** | 3,010,275 |
| Gearing ratio | **12.8%** | 22.1% |

The Group targets to maintain a gearing ratio of not higher than 50% which is in line with the expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the current year.

## 54. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

### 54.1 Categories of financial instruments

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at fair value through profit or loss | | |
| – investments held for trading | **75,290** | 118,289 |
| – derivative financial instruments | **–** | 5,059 |
| Loans and receivables# | **759,615** | 862,527 |
| Available-for-sale financial assets | **321,273** | 256,458 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost^ | **1,278,696** | 1,528,580 |

# *including loans receivable, trade and bills receivables, other receivables, finance lease receivables, amounts due from joint ventures, bank balances including restricted bank deposit and structured bank deposits.*

^ *including trade payables, other payables and accruals, finance lease payable, refundable deposits received, amounts due to associates, a joint venture, amount due to a joint venture, a related party and a director, bank borrowings and loan from non-controlling shareholder.*

### 54.2 Financial results by financial instruments

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **Fair value gain/(loss) on:** | | |
| Financial assets at fair value through profit or loss | | |
| – investments held for trading | **30,774** | (3,363) |
| Derivative financial instruments | **(17,734)** | 2,405 |
| **Increase/(Decrease) in fair value of:** | | |
| Available-for-sale financial assets (recognised in other comprehensive income) | **33,668** | (13,736) |
| **Interest income or (expenses) on:** | | |
| Loans and receivables | **3,673** | 3,685 |
| Financial assets at fair value through profit or loss | **9,126** | 6,440 |
| Available-for-sale financial assets | **5,616** | 5,487 |
| Financial liabilities at amortised cost | **(26,890)** | (25,759) |
| **Dividend income from:** | | |
| Financial assets at fair value through profit or loss | | |
| – investments held for trading | **1,383** | 2,281 |
| Available-for-sale financial assets | **7,951** | 7,542 |
| **Impairment loss on:** | | |
| Loans and receivables | **2,747** | 2,688 |
| Available-for-sale financial assets (recycled from other comprehensive income) | **–** | 16,348 |
| **Gain on disposal** | | |
| Available-for-sale financial assets (recognised in profit or loss, including HK$938,000 recycled from other comprehensive income) | **5,857** | – |

# 54. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY
*(Continued)*

## 54.3 Fair value of financial instruments

### (a) Financial instruments measured at fair value

The following table presents the carrying value of financial instruments measured at fair value as at 31 December 2017 and 2016 across the three levels of the fair value hierarchy defined in HKFRS 13, with the fair value of each financial instruments categorised in its entirety based on the lowest level of input that is significant to the fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **As at 31 December 2017** | | | | |
| **Financial assets** | | | | |
| Available-for-sale financial assets | | | | |
| – Listed equity securities | **178,533** | **–** | **–** | **178,533** |
| – Unlisted equity securities | **–** | **–** | **142,360** | **142,360** |
| Investments held for trading | | | | |
| – Listed equity securities | **75,290** | **–** | **–** | **75,290** |
| **As at 31 December, 2016** | | | | |
| **Financial assets** | | | | |
| Available-for-sale financial assets | | | | |
| – Listed equity securities | 41,075 | – | – | 41,075 |
| – Unlisted equity securities | – | – | 133,813 | 133,813 |
| – Listed debt securities | 81,190 | – | – | 81,190 |
| Investments held for trading | | | | |
| – Listed equity securities | 68,179 | – | – | 68,179 |
| – Listed debt securities | 50,110 | – | – | 50,110 |
| Derivative financial instruments | – | 5,059 | – | 5,059 |

During the years ended 31 December 2017 and 2016, there were no transfers between instruments in Level 1, Level 2 and Level 3.

The fair value of the derivative financial instruments as at 31 December 2016, being foreign exchange forward contract, was determined with reference to the valuation provided by the reputable, high credit rating third party financial institution with which the contracts were entered into. Such valuation was measured using valuation techniques which incorporate market observable inputs including foreign exchange spot and forward rates and credit quality of counterparty.

# 54. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

## 54.3 Fair value of financial instruments *(Continued)*

### (a) Financial instruments measured at fair value *(Continued)*

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (i.e. Level 3), being unlisted equity securities, are as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Unlisted equity securities** | | |
| At 1st January | **133,813** | 145,619 |
| Translation difference | **9,384** | (9,235) |
| Changes in fair value | **(837)** | (2,571) |
| At 31 December | **142,360** | 133,813 |

The fair values of the unlisted equity securities as at 31 December 2017 and 2016 were estimated with reference to the valuation carried out by Asset Appraisal Limited, an independent professional valuer, using valuation multiple derived from observable market data. The valuation also requires the directors to make estimates and assumptions that are not supported by observable market prices or rates, including discount for lack of marketability. The marketability discount represents the amount of premium or discount determined by the directors that market participants would take into account when pricing the investments. The higher the marketability discount, the lower the fair values of the investments. Had the marketabilities discount been increased by 10%, the fair value of the instruments would reduce by HK$15,552,000 (2016: HK$16,900,000).

### (b) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and bills receivables, other receivables, balances due from/to associates, joint ventures, a related company and a director, bank balances including restricted bank deposit and structured bank deposits, trade payables, other payables and accruals as well as the current portion of loans receivable, finance lease receivables, finance lease payable and bank borrowings. Due to their short-term nature, their carrying values approximate their fair values.

For disclosure purpose, the fair values of non-current portion of loans receivable, finance lease receivables, finance lease payable and bank borrowings as well as loan from non-controlling shareholder are not materially different from their carrying values. Those fair values have been determined by using discounted cash flow models and are classified as level 3 in the fair value hierarchy. Significant inputs include expected future cash flows and discount rate used to reflect the credit risks of the Group and the counterparties, where appropriate.

# 55. FINANCIAL RISK MANAGEMENT

## 55.1 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks which comprise market risk (including foreign currency risk, price risk, and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors and senior management of the Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

# 55. FINANCIAL RISK MANAGEMENT *(Continued)*

## 55.2 Market risk

### (i) Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong and the PRC. The functional currency of the Company and its subsidiaries are mainly HK$, US$ and RMB with certain of their business transactions being settled in US$ and RMB. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily US$ and RMB, against the functional currency of the Company and the group entities. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group continues to conduct its sales mainly in US$ and RMB and make payments either in US$, HK$ or RMB. In addition, the Group's bank borrowings were denominated in HK$ and US$. The directors considered that a natural hedge mechanism existed. The Group would, however, closely monitor the volatility of the RMB exchange rate. All in all, the Group's risk exposure to foreign exchange rate fluctuations remain minimal.

The overall exposure in respect of the carrying amounts of the Group's foreign currency denominated financial assets and liabilities in net position as at 31 December 2017 and 2016 were as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Net financial assets/(liabilities) | | |
| HK$ | **(119,821)** | (66,371) |
| US$ | **447,027** | 369,713 |
| RMB | **254,675** | 242,787 |

As HK$ is pegged to US$, the Group does not have material exchange risk exposure on such currencies. The following sensitivity analysis, determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year, demonstrates the Group's exposure to a reasonably possible change in RMB exchange rate against the HK$ on the Group's net asset position denominated in RMB as at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

| | **Increase/(Decrease) in profit for the year and retained profits** | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| RMB against HK$ | | |
| – strengthen by 5% (2016: 5%) | **11,073** | 10,651 |
| – weaken by 5% (2016: 5%) | **(11,073)** | (10,651) |

The change in the exchange rate do not affect the Group's other components of equity.

# 55. FINANCIAL RISK MANAGEMENT *(Continued)*

## 55.2 Market risk *(Continued)*

### (ii) Price risk

The Group is mainly exposed to equity price risk arising from equity securities classified as financial assets at fair value through profit or loss i.e. investments held for trading (note 29) and the available-for-sale financial assets (note 21) as prices of those investments in future are uncertain.

The Group's investments in listed equity securities are traded mainly in the stock exchange of Hong Kong. The Group also invested in unlisted equity securities which are classified as available-for-sale financial assets. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock market index and other industry indicators, as well as the Group's liquidity needs. To manage its price risk arising from the equity securities, the Group maintains a portfolio of diversified investments in terms of industry distribution. Also, the Group has appointed a special team to monitor the price risk and will consider hedging of the risk if necessary. The policies to manage price risk have been followed by the Group since prior years and are considered to be effective.

Management's best estimate of the effect on the Group's results in respect of those listed equity securities due to a reasonably possible change in the relevant stock market index or interest rate, with all other variables held constant, at the end of the reporting period are as follows (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

| | **Increase/(Decrease) in profit for the year and retained profits** | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Equity securities listed in Hong Kong – Hang Seng Index | | |
| +14% (2016: +12%) | **8,801** | 6,832 |
| –14% (2016: –12%) | **(8,801)** | (6,832) |

The above sensitivity illustrates the potential effect for listed equity securities classified as financial assets at fair value through profit or loss. If the prices of the listed equity securities classified as available-for-sale financial assets had been 14% (2016: 12%) higher, available-for-sale financial assets revaluation reserve would increase by HK$24,994,000 (2016: HK$4,929,000). If the prices of these listed equity securities had been 14% (2016: 12%) lower, available-for-sale financial assets revaluation reserve would decrease by HK$24,994,000 (2016: HK$1,409,000) and the Group's profit for the year would decrease by nil (2016: HK$3,520,000).

In respect of the unlisted equity investments with carrying amount of HK$142,360,000 as at 31 December 2017 (2016 HK$133,813,000), had the value of those investments classified as available-for-sale financial assets been 25% (2016: 20%) higher/lower, available-for-sale financial assets revaluation reserve would increase/decrease by HK$35,590,000 (2016: HK$26,763,000).

### (iii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from bank borrowings and investments in debt securities. Bank borrowings arranged at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. As at 31 December, 2017, approximately 74% (2016: 59%) of the bank borrowings bore interest at floating rates. The interest rates and repayment terms of the bank borrowings outstanding at the end of reporting date are disclosed in note 35.

The Group's investments in debt securities as at 31 December 2016 with carrying value of HK$131,300,000 were listed securities and bore interest at fixed rate which exposed the Group to fair value interest rate risk.

## 55. FINANCIAL RISK MANAGEMENT *(Continued)*

### 55.2 Market risk *(Continued)*

#### (iii) Interest rate risk *(Continued)*

The Group's bank balances also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on the bank balances. The directors consider the Group's exposure on bank deposits and bank borrowings to fair value interest rate risk is not significant as interest-bearing bank deposits and borrowings at fixed rate are within short maturity periods in general.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The following sensitivity demonstrates the Group's exposure to a reasonably possible change in interest rates on its floating rate bank borrowings with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

| | **Increase/(Decrease) in profit for the year and retained profits** | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Change in basis point ("bp") | | |
| +50 bp (2016: +50 bp) | **(2,643)** | (2,759) |
| –10 bp (2016: –10 bp) | **529** | 552 |

The change in interest rates do not affect the Group's other components of equity.

The above sensitivity analysis is prepared based on the assumption that the bank borrowings outstanding at the end of the reporting period would be outstanding in the next financial year.

As to the investments in debt securities as at 31 December 2016, the increase/decrease in market interest rate by 1% would result in the decrease/increase in fair value of the debt securities by HK$6,751,000, which thereby reduce/increase profit by HK$3,230,000 and reduce/increase available-for-sale financial assets revaluation reserve by HK$3,521,000.

### 55.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

The Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with credit worthy counterparties. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Credit terms are granted to new customers after credit worthiness assessment. The Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Credit risk on cash and bank balances, structured bank deposits and restricted bank deposit (note 30) is mitigated as cash is deposited in banks of high credit rating. As to investment strategies, usually investments are liquid securities quoted on recognised stock exchanges. As to investments in debt securities and unlisted securities, investment is made after credit assessment by investment team. The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

Concentration of credit risk is managed by the customer or counterparty. At 31 December 2017 29% (2016: 37%) of the total trade receivables was due from the Group's largest customer (determined by sale) within the business segment of electrical appliances.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables, and other receivables are disclosed in note 27.

## 55. FINANCIAL RISK MANAGEMENT *(Continued)*

### 55.4 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain a prudent liquidity risk management which is to maintain sufficient cash and cash equivalents as well as to make available of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risk.

The table below analyses the remaining contractual maturities of the Group's financial liabilities at the end of the reporting period which are based on contractual undiscounted cash flows and the earliest date the Group may be required to pay:

| | Repayable on demand or less than 1 year HK$'000 | 1 to 2 years HK$'000 | 2 to 5 years HK$'000 | Over 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Interest-bearing bank borrowings *(note)* | **743,668** | **32,526** | **87,927** | **–** | **864,121** | **854,984** |
| Trade payables | **121,475** | **–** | **–** | **–** | **121,475** | **121,475** |
| Other payables and accruals | **248,177** | **–** | **–** | **–** | **248,177** | **248,177** |
| Amounts due to associates | **122** | **–** | **–** | **–** | **122** | **122** |
| Amount due to a joint venture | **2,981** | **–** | **–** | **–** | **2,981** | **2,981** |
| Finance lease payable | **750** | **750** | **2,250** | **207** | **3,957** | **3,481** |
| Amount due to a related party | **291** | **–** | **–** | **–** | **291** | **291** |
| Amount due to a director | **41,087** | **–** | **–** | **–** | **41,087** | **41,087** |
| Loan from non-controlling shareholder | **–** | **–** | **–** | **6,098** | **6,098** | **6,098** |
| | **1,158,551** | **33,276** | **90,177** | **6,305** | **1,288,309** | **1,278,696** |
| **As at 31 December 2016** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Interest-bearing bank borrowings *(note)* | 615,797 | 528,321 | – | – | 1,144,118 | 1,123,668 |
| Trade payables | 144,411 | – | – | – | 144,411 | 144,411 |
| Other payables and accruals | 216,260 | – | – | – | 216,260 | 216,260 |
| Amounts due to associates | 121 | – | – | – | 121 | 121 |
| Amount due to a related party | 291 | – | – | – | 291 | 291 |
| Amount due to a director | 38,460 | – | – | – | 38,460 | 38,460 |
| Loan from non-controlling shareholder | – | – | – | 5,369 | 5,369 | 5,369 |
| | 1,015,340 | 528,321 | – | 5,369 | 1,549,030 | 1,528,580 |

## 55. FINANCIAL RISK MANAGEMENT *(Continued)*

### 55.4 Liquidity risk *(Continued)*

Note:

For certain term loans which contain a repayment on demand clause which can be exercised at the lender's sole discretion, the analysis above shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

The following table summaries the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the banks or financial institutions will exercise their discretion to demand immediate repayment. The directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

| | Within 1 year HK$'000 | In 2 to 5 years HK$'000 | Over 5 years HK$'000 | Total contractual undiscounted cash outflows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| **Bank borrowings subject to repayment on demand clause** | | | | | |
| **31 December 2017** | **760,360** | **120,453** | **–** | **880,813** | **854,984** |
| 31 December 2016 | 616,772 | 542,889 | – | 1,159,661 | 1,123,668 |

## 56. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The particulars of the principal subsidiaries as at 31 December 2017 are as follows:

| Name of subsidiaries | Place of incorporation/ operation | Class of shares held | Paid up issued/ registered capital | Percentage of issued/ registered capital held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| China Dynasty Development Ltd | British Virgin Islands | Ordinary | 1,000 shares of US$1 each | – | 100% | Property investment |
| Extra-Fund Investment Limited | Hong Kong | Ordinary | HK$2 | 100% | – | Securities trading |
| Fast-Gain Overseas Limited | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Property investment |
| Fortress Link Investment Limited | Hong Kong | Ordinary | HK$1 | – | 100% | Property development |
| Fushan Shunde SMC Multi-Media Products Company Limited** 佛山市順德區蜆華多媒體製品有限公司 | PRC^ | Paid up capital | US$20,870,000 | – | 100% | Manufacturing and trading of electrical appliances |
| Guangdong PFC Device Limited 廣東普福斯節能元件有限公司 | PRC^ | Paid up capital | US$13,000,000 | – | 70.2% | Manufacturing and sales of power discrete semiconductors |
| Guangzhou Hua Huang Property Development Limited** 廣州華皇房地產開發有限公司 | PRC^ | Paid up capital | HK$166,000,000 | – | 100% | Property development |
| Guangzhou Hui Liang Property Management Limited** 廣州匯朗物業管理有限公司 | PRC# | Paid up capital | RMB101,000,000 | – | 100% | Property investment and development |
| Guangzhou Parklane Car Leasing Limited** 廣州市百聯汽車租賃有限公司 | PRC# | Paid up capital | RMB5,000,000 | – | 100% | Vehicle rental and trading |
| Guangzhou SMC Car Rental Company Limited 廣州蜆富出租汽車有限公司 | PRC^ | Paid up capital | HK$75,000,000 | – | 100% | Taxi operations |
| Guangzhou Sien Fu Car Leasing Limited ** 廣州蜆富汽車租賃有限公司 | PRC^ | Paid up capital | HK$2,500,000 | – | 100% | Vehicle rental and trading |
| Guangzhou Xian Di Property Management Limited** 廣州蜆地物業管理有限公司 | PRC^ | Paid up capital | HK$1,000,000 | – | 100% | Property investment |
| New Style Development Limited | Hong Kong | Ordinary | HK$1 | – | 100% | Property development |
| PFC Device Corporation | British Virgin Islands/ Taiwan | Preferred | 4,956,153 shares of US$5,522,820 | – | 70.2% | Research and development and sales of power discrete semiconductors |
| | | Common | 105,000 shares of US$105,000 | | | |
| PFC Device Holdings Limited | British Virgin Islands/ Hong Kong | Preferred | 12,656,153 shares of US$13,222,820 | – | 70.2% | Investment holding |
| | | Common | 658,255 shares of US$658,255 | | | |

## 56. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

The particulars of the principal subsidiaries as at 31 December 2017 are as follows: *(Continued)*

| Name of subsidiaries | Place of incorporation/ operation | Class of shares held | Paid up issued/ registered capital | Percentage of issued/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| PFC Device (HK) Limited | Hong Kong | Ordinary | HK$1 | – | 70.2% | Sales of power discrete semiconductors |
| PFC Device Inc. | Cayman Islands | Ordinary | 1,608,420,000 shares of HK$0.01 each | – | 70.2% | Investment holding |
| Quanta Global Limited | British Virgin Islands/ Hong Kong | Ordinary | 1 share of US$1 | – | 100% | Trading electrical appliances |
| Shell Electric Mfg. (China) Company Limited | British Virgin Islands | Ordinary | 100 shares of US$10 each | – | 100% | Trading electrical appliances |
| Silvergate Global Limited | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| SMC Investments Limited | Hong Kong | Ordinary | HK$2 | – | 100% | Property investment |
| SMC Multi-Media Products Company Limited | British Virgin Islands | Ordinary | 1 share of US$1 | 100% | – | Investment holding |
| SMC Multi-Media (H.K.) Limited | Hong Kong | Ordinary | HK$2 | – | 100% | Contract manufacturing |
| SMC Multi-Media Trading Company Limited | Hong Kong | Ordinary | HK$1 | – | 100% | Contract manufacturing |
| SMC Property Investment Limited | Hong Kong | Ordinary | HK$2 | 100% | – | Investment holding |
| Speed Power Limited | Hong Kong | Ordinary | HK$2 | – | 100% | Trading electrical appliances |
| Sunny Resource Limited | Hong Kong | Ordinary | HK$1 | 100% | – | Intangible assets holding |
| Sybond Venture Limited | Cayman Islands | Ordinary | 1 share of US$1 | 100% | – | Investment holding |

^ The companies are incorporated in the PRC as wholly-owned foreign enterprises.

# The companies are incorporated in the PRC as limited liability companies.

** The English translation of the company name is for reference only. The official names of these companies are in Chinese.

The financial statements for the above subsidiaries were audited by BDO Limited for statutory purpose and/or for the purpose of Group consolidation.

None of the subsidiaries had any debt securities outstanding during the year.

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

## 57. PARTICULARS OF PRINCIPAL ASSOCIATES

The particulars of the associates as at 31 December 2017 are as follows:

| Name of associates | Place of incorporation/ operation | Class of shares held | Paid up issued/ registered capital | Percentage of issued/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| Hong Kong Construction SMC Development Limited | Hong Kong | Ordinary | HK$10,000,000 | – | 20% | Investment holding |
| Kumagai SMC Development (Guangzhou) Limited** 熊谷蜆壳發展(廣州)有限公司 | PRC^ | Paid up capital | US$59,000,000 | – | 20% | Property Investment |

^ The company is incorporated in the PRC as a wholly-owned foreign enterprise.

** The English translation of the company name is for reference only. The official name of this company is in Chinese.

## 58. PARTICULARS OF JOINT VENTURES

The particulars of the joint ventures as at 31 December 2017 are as follows:

| Name of joint ventures | Place of incorporation/ operation | Class of shares held | Paid up issued/ registered capital | Percentage of issued/registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| Appeon Limited | Hong Kong | Class A Voting<br>Class B Non-voting | US$449,164<br>US$302,509 | – | 51.18% | Investment holding |
| Appeon Inc. | USA | Paid up capital | US$200,000 | – | 51.18% | Sale of software licence |
| 艾普陽科技(深圳)有限公司 | PRC^ | Paid up capital | US$500,000 | – | 51.18% | Computer software development |

^ The company is incorporated in the PRC as a wholly-owned foreign enterprise.