

The following is the text of a report set out on pages I-1 to I-2, received from Yu Ming's reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YU MING INVESTMENT MANAGEMENT LIMITED AND EMPEROR CAPITAL LIMITED

Introduction

We report on the historical financial information of Yu Ming Investment Management Limited ("Yu Ming") set out on pages I-3 to I-46, which comprises the statements of financial position as at 31 December 2016, 2017 and 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-46 forms an integral part of this report, which has been prepared for inclusion in the prospectus of China Agrotech Holdings Limited (In Liquidation) (to be renamed as Da Yu Financial Holdings Limited) dated 28 June 2019 (the "Prospectus") in connection with the proposed acquisition of 100% equity interests in Yu Ming.

Directors' responsibility for the Historical Financial Information

The directors of Yu Ming are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of Yu Ming as at 31 December 2016, 2017 and 2018 and of Yu Ming's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which contains information about the dividends paid by Yu Ming in respect of the Track Record Period.

BDO Limited

Certified Public Accountants

Cheung Or Ping

Practising Certificate no. P05412

Hong Kong
28 June 2019

I. HISTORICAL FINANCIAL INFORMATION OF YU MING

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of Yu Ming for the Track Record Period, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Revenue	6	60,048	73,515	59,577
Other net (loss)/income	6	(544)	886	521
Other net financial income	8	8,404	7,534	2,642
Employee benefit expense	11	(23,148)	(27,909)	(15,759)
Operating lease expense		(959)	(1,068)	(1,102)
Other operating expense		(2,208)	(3,700)	(3,256)
Loss allowance for expected credit losses on financial assets at fair value through other comprehensive income		(773)	—	—
Profit before income tax	9	40,820	49,258	42,623
Income tax expense	10	(5,692)	(7,571)	(6,525)
Profit for the year		35,128	41,687	36,098
Other comprehensive (expense)/income				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Reclassification adjustment for the realisation upon redemption of financial assets at fair value through other comprehensive income		(413)	822	60
Change in fair value of financial assets at fair value through other comprehensive income offset by loss allowance for expected credit losses		(877)	(42)	(701)
Other comprehensive (expense)/income for the year, net of tax		(1,290)	780	(641)
Total comprehensive income for the year		33,838	42,467	35,457

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	14	97	54	76
Financial assets at fair value through other comprehensive income	15	102,170	16,925	16,263
Other assets	16	50	50	50
Trade and other receivables and deposits paid	17	–	5	–
		<u>102,317</u>	<u>17,034</u>	<u>16,389</u>
Current assets				
Financial assets at fair value through other comprehensive income	15	–	8,461	–
Trade and other receivables and deposits paid	17	2,439	2,936	5,294
Financial assets at fair value through profit or loss	18	1,028	755	377
Amount due from a fellow subsidiary	19	5,393	7,462	4,575
Taxation recoverable		–	1,941	2,178
Cash and cash equivalents	20	<u>148,982</u>	<u>257,746</u>	<u>82,937</u>
		<u>157,842</u>	<u>279,301</u>	<u>95,361</u>
Current liabilities				
Contract liabilities	21	13,045	24,909	16,456
Other payables and accrued expenses		15,889	19,962	8,315
Amount due to a holding company	22	295	335	393
Taxation payable		<u>2,268</u>	<u>–</u>	<u>–</u>
		<u>31,497</u>	<u>45,206</u>	<u>25,164</u>
Net current assets		<u>126,345</u>	<u>234,095</u>	<u>70,197</u>
Total assets less current liabilities		<u>228,662</u>	<u>251,129</u>	<u>86,586</u>
Net assets		<u>228,662</u>	<u>251,129</u>	<u>86,586</u>
EQUITY				
Share capital	23	10,000	10,000	10,000
Reserves	24	<u>218,662</u>	<u>241,129</u>	<u>76,586</u>
Total equity		<u>228,662</u>	<u>251,129</u>	<u>86,586</u>

STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>(Note 23)</i> <i>HK\$'000</i>	Investment revaluation reserve <i>(Note 24)</i> <i>HK\$'000</i>	Retained earnings <i>(Note 24)</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016	10,000	1,201	183,623	194,824
Profit for the year	–	–	35,128	35,128
Other comprehensive expenses for the year:				
– Reclassification adjustment for the realisation upon redemption of financial assets at fair value through other comprehensive income	–	(413)	–	(413)
– Change in fair value of financial assets at fair value through other comprehensive income offset by loss allowance for expected credit losses	–	(877)	–	(877)
Total comprehensive (expenses)/income for the year	–	(1,290)	35,128	33,838
At 31 December 2016	<u>10,000</u>	<u>(89)[#]</u>	<u>218,751[#]</u>	<u>228,662</u>
At 1 January 2017	10,000	(89)	218,751	228,662
Profit for the year	–	–	41,687	41,687
Other comprehensive income/(expenses) for the year:				
– Reclassification adjustment for the realisation upon redemption of financial assets at fair value through other comprehensive income	–	822	–	822
– Change in fair value of financial assets at fair value through other comprehensive income	–	(42)	–	(42)
Total comprehensive income for the year	–	780	41,687	42,467
Dividend paid	–	–	(20,000)	(20,000)
At 31 December 2017	<u>10,000</u>	<u>691[#]</u>	<u>240,438[#]</u>	<u>251,129</u>

	Share capital <i>(Note 23)</i> <i>HK\$'000</i>	Investment revaluation reserve <i>(Note 24)</i> <i>HK\$'000</i>	Retained earnings <i>(Note 24)</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2018	10,000	691	240,438	251,129
Profit for the year	–	–	36,098	36,098
Other comprehensive income/(expenses) for the year:				
– Reclassification adjustment for the realisation upon redemption of financial assets at fair value through other comprehensive income	–	60	–	60
– Change in fair value of financial assets at fair value through other comprehensive income	–	(701)	–	(701)
Total comprehensive (expenses)/income for the year	–	(641)	36,098	35,457
Dividend paid	–	–	(200,000)	(200,000)
At 31 December 2018	<u>10,000</u>	<u>50[#]</u>	<u>76,536[#]</u>	<u>86,586</u>

[#] The aggregate amount of those balances of HK\$218,662,000, HK\$241,129,000 and HK\$76,586,000 represents the reserves in the statements of financial position of Yu Ming as at 31 December 2016, 2017 and 2018 respectively.

STATEMENTS OF CASH FLOWS

	<i>Notes</i>	Year ended 31 December		
		2016	2017	2018
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities				
Profit before income tax		40,820	49,258	42,623
Adjustments for:				
Depreciation of property, plant and equipment	9	60	66	33
Interest income from financial assets at fair value through other comprehensive income	8	(5,914)	(5,556)	(1,237)
Interest income from bank deposits	8	(178)	(583)	(1,783)
Realised gain on redemption of financial assets at fair value through other comprehensive income	8	(3,577)	(1,623)	–
Fair value loss on financial assets at fair value through profit or loss	8	2,143	273	378
Dividend income	8	(878)	–	–
Exchange loss/(gain)		511	(738)	(312)
Loss allowance for expected credit losses on financial assets at fair value through other comprehensive income		773	–	–
Operating profit before working capital changes		33,760	41,097	39,702
Increase in trade and other receivables and deposits paid		(673)	(502)	(2,353)
Change in financial assets at fair value through profit or loss		37,059	–	–
Change in balances with a fellow subsidiary		(302)	(2,069)	2,887
Increase/(decrease) in contract liabilities		8,945	11,864	(8,453)
Increase/(decrease) in other payables and accrued expenses		6,882	4,073	(11,647)
Increase in amount due to a holding company		92	40	58
Cash generated from operations		85,763	54,503	20,194
Bank interest received		178	583	1,783
Dividend received		878	–	–
Hong Kong profits tax paid		(3,294)	(11,780)	(6,762)
Net cash generated from operating activities		83,525	43,306	15,215

	<i>Notes</i>	Year ended 31 December		
		2016	2017	2018
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from investing activities				
Proceeds from redemption financial assets at fair value through other comprehensive income		77,576	78,090	8,675
Purchase of financial assets at fair value through other comprehensive income		(77,570)	–	–
Purchase of property, plant and equipment	14	(64)	(23)	(55)
Interest received from financial assets at fair value through other comprehensive income		<u>7,970</u>	<u>7,391</u>	<u>1,356</u>
Net cash generated from investing activities		<u>7,912</u>	<u>85,458</u>	<u>9,976</u>
Cash flows from financing activities				
Dividend paid		<u>–</u>	<u>(20,000)</u>	<u>(200,000)</u>
Net cash used in financing activities		<u>–</u>	<u>(20,000)</u>	<u>(200,000)</u>
Net increase/(decrease) in cash and cash equivalents		91,437	108,764	(174,809)
Cash and cash equivalents at 1 January		<u>57,545</u>	<u>148,982</u>	<u>257,746</u>
Cash and cash equivalents at 31 December	20	<u><u>148,982</u></u>	<u><u>257,746</u></u>	<u><u>82,937</u></u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION**

Yu Ming is a limited liability company incorporated and domiciled in Hong Kong. The address of Yu Ming's registered office and principal place of business of Yu Ming is Room 1801, 18th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

Yu Ming is a registered licensed corporation under the Hong Kong Securities and Futures Ordinance and its principal business activities are dealing in securities, advising on securities, advising on corporate finance and asset management. During the Track Record Period, Yu Ming is a licensed corporation under the Hong Kong Securities and Futures Ordinance for Type 1, 4, 6 and 9 regulated activities.

During the Track Record Period, the parent of Yu Ming is Fine Era Limited, which is incorporated in the British Virgin Islands and the ultimate holding company of Yu Ming is Allied Group Limited ("AGL"), a listed public limited company, which is incorporated in Hong Kong. The ultimate controlling party of Yu Ming is the trustees of Lee and Lee Trust. The address of the principal place of business of the trustees of Lee and Lee Trust is 24th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

The statutory financial statements of Yu Ming for the years ended 31 December 2016, 2017 and 2018 were audited by BDO Limited, Certified Public Accountants.

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") which is same as the functional currency of Yu Ming.

2. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with accounting policies set out in Note 4 below, which confirms to HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting periods commencing from 1 January 2018 together with the relevant transitional provisions, including HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" and the related Amendments, have been adopted by Yu Ming in the preparation of the Historical Financial Information throughout the Track Record Period. The Historical Financial Information also complies with the applicable disclosure provisions of the Listing Rules.

The significant accounting policies that have been used in the preparation of these financial statements are summarised in Note 4. These policies have been consistently applied to the Track Record Period unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for financial instruments classified as at fair value through other comprehensive income and at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below in Note 4.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are described in Note 5.

The Historical Financial Information is presented in HK\$ and all values are rounded to the nearest thousand ("HK\$'000") except when otherwise indicated.

3. NEW/REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The following new/revised HKFRSs have been issued, but are not yet effective and have not been early adopted by Yu Ming.

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

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

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but is available for early adoption

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 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.

As at 31 December 2018, Yu Ming has non-cancellable operating lease commitments in respect of rental premise of approximately HK\$262,000 as disclosed in Note 25. Yu Ming does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on Yu Ming’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the statement of financial position as right-of-use assets and lease liabilities.

Yu Ming intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information. Yu Ming intends to apply the practical expedient under this modified approach and not to reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Yu Ming also intends to adopt the practical expedient of not to apply the requirement of HKFRS 16 to short-term leases (i.e. where the lease term ends within 12 months of the date of initial application), in which case the rental fees would continue to be recognised on a systematic basis over the lease terms.

4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by Yu Ming in arriving at the Historical Financial Information set out in this report are set out below:

4.1 Foreign currency translation

The financial statements are presented in HK\$, which is also the functional currency of Yu Ming.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Yu Ming and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost over their estimated useful lives on a straight-line basis at the following rates per annum.

Furniture and fixtures	33.3%
Office equipment	33.3%
Leasehold improvements	20%-33.3%

The useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4.3 Leases

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

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integrated part of the total rental expense, over the term of the lease.

4.4 Financial assets

Initial recognition and measurement

Financial assets are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which Yu Ming commits to purchase or sell the asset.

At initial recognition, Yu Ming measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (i) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (ii) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Classification and subsequent measurement

Yu Ming's financial assets include financial assets at fair value through other comprehensive income, trade receivables and other receivables and deposits paid, amount due from a fellow subsidiary, financial assets at fair value through profit or loss and cash and cash equivalents.

Yu Ming has applied HKFRS 9 and classifies its financial assets in the following measurement categories:

- (i) Fair value through profit or loss;
- (ii) Fair value through other comprehensive income; or
- (iii) Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- (i) Yu Ming's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Business model assessment:

The business model reflects how Yu Ming manages the assets in order to generate cash flows. That is, whether Yu Ming's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of other business model and measured at fair value through profit or loss. Factors considered by Yu Ming in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Solely payments of principal and interest on the principal amount outstanding test:

Yu Ming assesses the contractual terms of instruments to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Financial assets that are consistent with a basic lending arrangement are considered to meet the solely payments of principal and interest on the principal amount outstanding criterion. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. It may also include consideration for other basic lending risks such as liquidity risks, costs associated with holding the financial assets for a period of time (e.g., servicing or administrative costs) and a profit margin.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest on the principal amount outstanding.

Based on these factors, Yu Ming classifies its debt instruments into one of the following two measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on the principal amount outstanding, and that are not designated at fair value through profit or loss, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured using the effective interest rate method.

Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest on the principal amount outstanding, and that are not designated at fair value through profit or loss, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains or losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is recycled from other comprehensive income to profit or loss.

Yu Ming reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Yu Ming subsequently measures all equity investments at fair value through profit or loss, except where Yu Ming's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. Yu Ming's policy is to designate equity investments as fair value through other comprehensive income when those investments are

held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when represent a return on such investments, continue to be recognised in profit or loss as other income when Yu Ming's right to receive payments is established.

Gains and losses on equity investments at fair value through profit or loss are included in the fair value gain/loss on financial assets at fair value through profit or loss in the statements of profit or loss and other comprehensive income.

Impairment

Yu Ming applies a simplified approach to measure ECL on trade receivables; and a general approach to measure ECL on time deposits and other financial assets accounted for at amortised cost. Under the simplified approach, Yu Ming measures the loss based on lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit-impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, Yu Ming assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. Yu Ming considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Yu Ming assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, remaining term to maturity and other relevant factors. Yu Ming assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to Yu Ming and all the cash flows that Yu Ming expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

4.5 Financial liabilities

Yu Ming's financial liabilities including other payables and accrued expenses, amount due to a holding company are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest rate method.

Financial liabilities are recognised when Yu Ming becomes a party to the contractual provisions of the instrument.

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.

4.6 Cash and cash equivalents

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

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

4.7 Share capital

Ordinary shares are classified as equity.

4.8 Revenue recognition

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Specifically, Yu Ming uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customers
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Yu Ming recognises revenue when (or as) a performance obligation is satisfied, i.e. when "Control" of the services underlying the particular performance obligation is transferred to the customers.

Control of the services may be transferred over time or at a point in time. Control of the services is transferred over time if:

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

If control of the services transfer over time, revenue is recognised over the period of the contract by reference to the progress complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services.

(a) Advisory fee income and related services

Advisory fee income from providing specified financial advisory and acting as independent financial adviser are recognised at a point in time when the services for the transactions are completed under the terms of each engagement and the revenue can be measured reliably, as only that time Yu Ming has a present right to payment from the customers for the service performed.

Advisory fee income from provision of services under retainers is recognised over time based on contractual terms specified in the underlying agreements, as the customer simultaneously receives and consumes the benefits providing by the entity's performance as the entity performs and the revenue can be measured reliably.

Commission based and other services are recognised at a point in time when the services for the transactions are completed under the terms of each engagement and the revenue can be measured reliably, as only that time Yu Ming has a present right to payment from the customers for the service performed.

(b) Management fee income

Management fee income from provision of investment management services is recognised over time based on contractual terms specified in the underlying investment management agreement, as the customer simultaneously receives and consumes the benefits providing by the entity's performance as the entity performs and the revenue can be measured reliably.

(c) Performance fee income

Performance fee income based on the performance of the investment company is a form of variable consideration in its contract with the customer to provide investment management services. Performance fee income is earned based on the performance of the investment company during the period, subject to the achievement of high water mark, in accordance with the respective terms set out in the investment management agreement. Performance fee income will not be recognised as revenue until (a) it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, or (b) the uncertainty associated with the variable consideration is subsequently resolved.

(d) Interest income

Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on the initial recognition.

4.9 Impairment of non-financial assets

Property, plant and equipment and investment in a subsidiary are subject to impairment testing.

It is tested for impairment whenever there are indications that the asset's 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. 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 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 ("CGU")). As a result, some assets are tested individually for impairment and some are tested at CGU level.

Impairment losses recognised for CGUs are charged pro rata to the assets in CGU, 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 is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

4.10 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through a defined contribution plan.

Yu Ming operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme"), for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Contributions are recognised as an expense in profit or loss as employees render services during the year. Yu Ming's obligation under these plans is limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

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

4.11 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, taxation authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where Yu Ming is able to control the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the reporting date.

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.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) Yu Ming has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Yu Ming presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

4.12 Related parties

- (a) A person or a close member of that person's family is related to Yu Ming if that person:
 - (i) has control or joint control of Yu Ming;
 - (ii) has significant influence over Yu Ming; or
 - (iii) is a member of key management personnel of Yu Ming or Yu Ming's parent.
- (b) An entity is related to Yu Ming if any of the following conditions apply:
 - (i) The entity and Yu Ming 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 Yu Ming or an entity related to Yu Ming.
 - (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 key management personnel of the entity (or of a parent of the entity).

- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to Yu Ming or to Yu Ming parent.

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

4.13 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements 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.

Yu Ming 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 risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment allowances on financial assets

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

At each reporting date, Yu Ming assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. Yu Ming considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Deferred taxes

Significant judgement is required in determining the amount of deferred taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the deferred taxes in the period in which such determination is made.

Fair value of financial assets and liabilities

The best evidence of fair value is the published price quotations in an active market. In the absence of such information, the fair value is determined by an independent professional valuer. Such valuation is subject to limitations of the valuation models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including share prices, deposit rates, spot rates, risk-free rates, volatility and the relevant parameters of the valuation model be changed, there would be material changes in the fair value of certain financial instruments without quoted prices.

Determination of active market

HKFRS 13 defines that an active market as one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The management has to assess whether the market for the financial instruments is active or not in order to determine the fair value of the financial instruments.

6. REVENUE AND OTHER NET (LOSS)/INCOME

Revenue represents revenue arising on services rendered for the Track Record Period. All Yu Ming's revenue is derived from contracts with customers.

(a) Disaggregation of revenue

Revenue is disaggregated as follows:

	Year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Type of services			
Advisory and related services	41,232	51,394	40,754
Asset management services			
– Management fee income	17,424	19,288	17,824
– Performance fee income	–	1,916	–
	<u>17,424</u>	<u>21,204</u>	<u>17,824</u>
Sundry income	<u>1,392</u>	<u>917</u>	<u>999</u>
	<u><u>60,048</u></u>	<u><u>73,515</u></u>	<u><u>59,577</u></u>
Type of customers			
Listed companies	51,248	59,665	53,927
Non-listed companies and others	<u>8,800</u>	<u>13,850</u>	<u>5,650</u>
	<u><u>60,048</u></u>	<u><u>73,515</u></u>	<u><u>59,577</u></u>
Timing of revenue recognition			
At a point in time	31,268	34,838	28,565
Transferred over time	<u>28,780</u>	<u>38,677</u>	<u>31,012</u>
	<u><u>60,048</u></u>	<u><u>73,515</u></u>	<u><u>59,577</u></u>

(b) Transaction price allocated to remaining performance obligations

As of 31 December 2016, 2017 and 2018, the aggregate amount of the transaction price allocated to the performance obligation that is unsatisfied (or partially unsatisfied) is approximately HK\$27,300,000, HK\$49,900,000 and HK\$43,420,000. Yu Ming expects to recognise the amount as revenue when the performance obligations are satisfied in coming 12 to 48 months, depending on the contract terms. The following table show the time bands for remaining performance obligations to be satisfied.

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Remaining performance obligations expected to be satisfied during:			
the year ended 31 December 2017	15,300	–	–
the year ended 31 December 2018	–	17,880	–
the year ending 31 December 2019	12,000	32,020	36,420
the year ending 31 December 2020	–	–	7,000
	27,300	49,900	43,420
	27,300	49,900	43,420

(c) Other net (loss)/income

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Exchange (loss)/gain, net	(544)	886	521
	(544)	886	521
	(544)	886	521

7. SEGMENT INFORMATION

Information reported to the CODM, being the directors of Yu Ming (the "Directors"), for the purpose of resource allocation and assessment of segment performance focuses on type of services provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of Yu Ming.

Yu Ming's reportable and operating segments are as follows:

- (i) Corporate finance services and investment – provision of corporate finance advisory services including financial advisory services, services incidental to financial advisory, compliance advisory services, placing agency and/or underwriting services and investment business.
- (ii) Asset management services – provision of asset management services including investment advisory services.

Segment revenue and results

	Corporate finance services and investment HK\$'000	Asset management services HK\$'000	Total HK\$'000
Year ended 31 December 2016			
External segment revenue and other income/(loss) <i>(Note)</i>	48,319	18,816	67,135
Result			
Segment profit	32,507	8,313	40,820
Profit before income tax			<u>40,820</u>
Year ended 31 December 2017			
External segment revenue and other income/(loss) <i>(Note)</i>	59,814	22,121	81,935
Result			
Segment profit	38,684	10,574	49,258
Profit before income tax			<u>49,258</u>
Year ended 31 December 2018			
External segment revenue and other income/(loss) <i>(Note)</i>	43,917	18,823	62,740
Results			
Segment profit	33,290	9,333	42,623
Profit before income tax			<u>42,623</u>

Note: Net financial income generated from proprietary trading included in external segment revenue and other income/(loss) under corporate finance services and investment for the years ended 31 December 2016, 2017 and 2018 were HK\$7,087,000, HK\$8,375,000 and HK\$3,163,000 respectively.

Segment assets and liabilities

	As at 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets			
Corporate finance services and investment	254,766	288,873	107,175
Asset management services	5,393	7,462	4,575
Total assets	<u>260,159</u>	<u>296,335</u>	<u>111,750</u>

	As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Segment liabilities			
Corporate finance services and investment	13,045	24,909	16,456
Asset management services	—	—	—
Total segment liabilities	13,045	24,909	16,456
Unallocated	18,452	20,297	8,708
Total liabilities	<u>31,497</u>	<u>45,206</u>	<u>25,164</u>

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than property, plant and equipment, certain trade and other receivables and deposits paid, cash and cash equivalents and other corporate assets; and
- all liabilities are allocated to operating segments other than other payable and accrued expenses, amount due to a holding company, taxation payable and other corporate liabilities.

Major customers information

Revenue from major customers, each of whom amounted to 10% or more of Yu Ming's revenue for the Track Record Period, is set out below:

	Year ended 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Customer A ¹	18,816	22,121	18,823

¹ Revenue from Customer A is attributable to asset management services

Note: None of corporate finance services and investment transaction during the years ended 31 December 2016, 2017 and 2018 was 10% or more of Yu Ming's revenue.

Geographic information

Yu Ming's operations are mainly located in Hong Kong and all Yu Ming's non-current assets are located in Hong Kong, except financial assets at fair value through other comprehensive income which are listed outside Hong Kong of HK\$8,757,000, HK\$8,603,000 and HK\$8,201,000 as at 31 December 2016, 2017 and 2018 respectively.

8. OTHER NET FINANCIAL INCOME

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Interest income from financial assets at fair value through other comprehensive income	5,914	5,556	1,237
Interest income from bank deposits	<u>178</u>	<u>583</u>	<u>1,783</u>
Total interest income derived from financial assets not at fair value through profit or loss	6,092	6,139	3,020
Realised gain on redemption of financial assets at fair value through other comprehensive income	3,577	1,623	–
Fair value loss on financial assets at fair value through profit or loss	(2,143)	(273)	(378)
Dividend income	878	–	–
Sundry income	<u>–</u>	<u>45</u>	<u>–</u>
	<u>8,404</u>	<u>7,534</u>	<u>2,642</u>

9. PROFIT BEFORE INCOME TAX

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Profit before income tax is arrived at after charging:			
Auditor's remuneration	35	36	38
Depreciation of property, plant and equipment	60	66	33
Employee benefit expense (including Directors' emoluments (Note 12)) (Note 11)	23,148	27,909	15,759
Minimum lease payments paid under operating leases in respect of rented premises	<u>904</u>	<u>1,013</u>	<u>1,050</u>

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at rate of 16.5% on the estimated assessable profits for each of the Track Record Period.

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Current tax			
Provision for the year	5,879	7,589	6,554
Overprovision in prior year	<u>(187)</u>	<u>(18)</u>	<u>(29)</u>
Total income tax expense	<u>5,692</u>	<u>7,571</u>	<u>6,525</u>

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 corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

The above amendment only allows a group of connected entities to nominate one entity to apply the reduced tax rate for a given year of assessment. The others would not qualify for the two-tiered profits tax rates.

For the year ended 31 December 2018, the ultimate holding company of Yu Ming did not nominate Yu Ming to apply the reduced tax rate. Therefore, Yu Ming would not qualify for the reduced tax rate and Hong Kong profits tax of Yu Ming continues to be calculated at a flat rate of 16.5% of the estimated assessable profits.

For the year ended 31 December 2016 and 2017, Hong Kong profits tax of Yu Ming was calculated at a flat rate of 16.5% of the estimated assessable profits.

Reconciliation between income tax expense and accounting profit at applicable tax rate is as follows:

	Year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax	<u>40,820</u>	<u>49,258</u>	<u>42,623</u>
Tax calculated at the applicable rate of 16.5%	6,735	8,127	7,033
Tax effect of non-taxable income	(1,076)	(559)	(486)
Tax effect of non-deductible expenses	225	16	13
Tax effect of temporary differences not recognised	(5)	5	(6)
Overprovision in prior year	<u>(187)</u>	<u>(18)</u>	<u>(29)</u>
Income tax expense	<u>5,692</u>	<u>7,571</u>	<u>6,525</u>

Yu Ming has no material unrecognised deferred tax as at 31 December 2016, 2017 and 2018.

11. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	22,800	27,539	15,380
Pension costs – defined contribution plan	<u>348</u>	<u>370</u>	<u>379</u>
	<u>23,148</u>	<u>27,909</u>	<u>15,759</u>

12. DIRECTORS', EMPLOYEES' AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) Directors' emoluments

Directors' remuneration paid or payable to each of the Directors for each of the Track Record Period are as follows:

	Fees <i>HK\$'000</i>	Salaries, bonus and benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2016				
<i>Executive Director:</i>				
Mr. Lee Wa Lun, Warren (<i>Note a</i>)	–	10,540	–	10,540
<i>Non-Executive Director:</i>				
Mr. Li Chi Kong	–	–	–	–
	–	10,540	–	10,540
	<u>–</u>	<u>10,540</u>	<u>–</u>	<u>10,540</u>
Year ended 31 December 2017				
<i>Executive Director:</i>				
Mr. Lee Wa Lun, Warren (<i>Note a</i>)	–	13,151	–	13,151
<i>Non-Executive Director:</i>				
Mr. Li Chi Kong	–	–	–	–
	–	13,151	–	13,151
	<u>–</u>	<u>13,151</u>	<u>–</u>	<u>13,151</u>
Year ended 31 December 2018				
<i>Executive Director:</i>				
Mr. Lee Wa Lun (<i>Note a</i>)	–	4,310	–	4,310
<i>Non-executive Director:</i>				
Mr. Li Chi Kong	–	–	–	–
	–	4,310	–	4,310
	<u>–</u>	<u>4,310</u>	<u>–</u>	<u>4,310</u>

Note:

- a. In respect of the term of employment, Mr. Lee Wa Lun, Warren is entitled to a discretionary bonus. The amount of the discretionary bonus is at the discretion of the board of Directors of Yu Ming (the "Board") taking into account of the performance of Yu Ming.

During the Track Record Period, none of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by Yu Ming to any of the Directors as an inducement to join or upon joining Yu Ming or as compensation for loss of office.

(ii) Five highest paid individuals

The five highest paid individuals included one, one and one Director for the years ended 31 December 2016, 2017 and 2018, details of whose emoluments are set out in Note 12(i) above. The emoluments of the remaining highest paid individuals are as follows:

	Year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	4,290	4,507	4,732
Bonus payments (<i>Note a</i>)	3,805	5,014	2,874
Retirement benefit scheme contributions	198	207	218
	<u>8,293</u>	<u>9,728</u>	<u>7,824</u>

Their emoluments fell within the following bands:

	Number of employees		
	Year ended 31 December		
	2016	2017	2018
HK\$1,000,000 or below	–	–	–
HK\$1,000,001 to HK\$1,500,000	–	–	1
HK\$1,500,001 to HK\$2,000,000	2	2	1
HK\$2,000,001 to HK\$2,500,000	–	–	1
HK\$2,500,001 to HK\$3,000,000	2	–	1
HK\$3,000,001 to HK\$3,500,000	–	2	–
	<u>4</u>	<u>4</u>	<u>4</u>

During the Track Record Period, there were no emoluments paid by Yu Ming to any of the five highest paid individuals as an inducement to join or upon joining Yu Ming or as compensation for loss of office.

Note:

- a. In respect of the term of employment, Executive Director and staff are entitled to a discretionary bonus. The amount of the discretionary bonus is at the discretion of the Board taking into account of the performance of Yu Ming.

13. DIVIDENDS

No dividend has been paid or declared by Yu Ming during the Track Record Period except below:–

On 25 January 2017 and 10 May 2017, the Board declared interim dividends of HK\$1 and HK\$1 per ordinary share respectively. Interim dividends of totaling HK\$20,000,000 were paid for the year ended 31 December 2017.

On 13 September 2018, the Board declared an interim dividend of HK\$20 per ordinary share. Interim dividend of totaling HK\$200,000,000 was paid for the year ended 31 December 2018.

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
1 January 2016	143	601	272	1,016
Additions	–	64	–	64
Written off	–	(66)	–	(66)
	<u>143</u>	<u>599</u>	<u>272</u>	<u>1,014</u>
At 31 December 2016 and 1 January 2017				
Additions	–	23	–	23
	<u>143</u>	<u>622</u>	<u>272</u>	<u>1,037</u>
At 31 December 2017 and 1 January 2018				
Additions	–	55	–	55
	<u>143</u>	<u>677</u>	<u>272</u>	<u>1,092</u>
At 31 December 2018				
Accumulated depreciation				
1 January 2016	143	508	272	923
Depreciation	–	60	–	60
Written off	–	(66)	–	(66)
	<u>143</u>	<u>502</u>	<u>272</u>	<u>917</u>
At 31 December 2016 and 1 January 2017				
Depreciation	–	66	–	66
	<u>143</u>	<u>568</u>	<u>272</u>	<u>983</u>
At 31 December 2017 and 1 January 2018				
Depreciation	–	33	–	33
	<u>143</u>	<u>601</u>	<u>272</u>	<u>1,016</u>
At 31 December 2018				
Carrying amount				
At 31 December 2016	<u>–</u>	<u>97</u>	<u>–</u>	<u>97</u>
At 31 December 2017	<u>–</u>	<u>54</u>	<u>–</u>	<u>54</u>
At 31 December 2018	<u>–</u>	<u>76</u>	<u>–</u>	<u>76</u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Non-current			
Listed debt securities (<i>Notes 15.1 and 27.7(b)</i>)	94,319	16,925	16,263
Unlisted debt securities (<i>Note 27.7(b)</i>)	<u>7,851</u>	<u>–</u>	<u>–</u>
	<u>102,170</u>	<u>16,925</u>	<u>16,263</u>
Current			
Unlisted debt securities (<i>Note 27.7(b)</i>)	<u>–</u>	<u>8,461</u>	<u>–</u>
	<u>102,170</u>	<u>25,386</u>	<u>16,263</u>

Fair values for these securities have been measured as described in Note 27.7.

Financial assets at fair value through other comprehensive income are denominated in the following currencies:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
United States dollars (“USD”)	94,319	16,925	16,263
Renminbi (“RMB”)	<u>7,851</u>	<u>8,461</u>	<u>–</u>
	<u>102,170</u>	<u>25,386</u>	<u>16,263</u>

15.1 Listed debt securities

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Listed debt securities			
– Listed in Hong Kong	85,562	8,322	8,062
– Listed outside Hong Kong	<u>8,757</u>	<u>8,603</u>	<u>8,201</u>
	<u>94,319</u>	<u>16,925</u>	<u>16,263</u>

These financial assets are subject to financial risk exposure in term of price and currency risks.

16. OTHER ASSETS

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Dealer deposit with the Securities and Futures Commission of Hong Kong (“SFC”)	<u>50</u>	<u>50</u>	<u>50</u>

17. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Non-current			
Prepayment	—	5	—
Current			
Trade receivables	2,118	2,406	4,738
Other receivables	73	248	258
Prepayments	30	36	52
Rental and utility deposits	218	246	246
	<u>2,439</u>	<u>2,936</u>	<u>5,294</u>
	<u>2,439</u>	<u>2,941</u>	<u>5,294</u>

Yu Ming normally applies credit terms to its customers according to industry practice together with consideration of their creditability, repayment history and years of establishment. Each customer has a maximum credit limit. Yu Ming seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

The Board considers that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The ageing analysis of Yu Ming's trade receivables as at the reporting date, based on invoice dates, is as follows:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	781	151	3,882
Over 30 days but with 60 days	530	50	150
Over 60 days	807	2,205	706
	<u>2,118</u>	<u>2,406</u>	<u>4,738</u>

The ageing analysis of Yu Ming's trade receivables that were neither past due nor impaired as at the reporting date, based on due dates, is as follows:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired	<u>2,118</u>	<u>2,406</u>	<u>4,738</u>

At each reporting date, Yu Ming reviews trade receivables for evidence of impairment on both individual and collective basis.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Financial assets			
Equity securities held for trading			
– Listed in Hong Kong	1,028	755	377

Financial assets at fair value through profit or loss are denominated in HK\$.

Fair values for these financial instruments have been measured as described in Note 27.7.

These financial assets are subject to financial risk exposure in term of price risk.

19. AMOUNT DUE FROM A FELLOW SUBSIDIARY

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Trade in nature	5,393	7,462	4,575

The amount due from a fellow subsidiary is unsecured, interest free and repayable on demand.

20. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Cash on hand and at banks	3,454	22,501	3,888
Short-term time deposits	145,528	235,245	79,049
Cash and cash equivalents	148,982	257,746	82,937

Bank balances, included in cash and cash equivalents of Yu Ming are denominated in the following currencies:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
USD	11,693	96,321	43,592
RMB	1	1	1

Yu Ming did not have significant exposure to foreign currency risk at 31 December 2016, 2017 and 2018.

21. CONTRACT LIABILITIES

Yu Ming have recognised the following revenue-related contract liabilities.

	As at 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract liabilities	<u>13,045</u>	<u>24,909</u>	<u>16,456</u>

The timing of revenue recognition, progress billings to customers and payments received from customers would affect the amount of trade receivables, contract assets and contract liabilities recognised as at the reporting date on the statements of financial position.

The contract liabilities mainly relate to the advance consideration received from customers.

Movement in the contract liabilities during the Track Record Period are as follows:

	Year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 January	4,100	13,045	24,909
Revenue recognised that was included in the contract liabilities balance at beginning of year	(1,100)	(8,545)	(18,909)
Increase due to cash received, excluding amount recognised as revenue during the year	<u>10,045</u>	<u>20,409</u>	<u>10,456</u>
Balance at 31 December	<u>13,045</u>	<u>24,909</u>	<u>16,456</u>

22. AMOUNT DUE TO A HOLDING COMPANY

The amount due to a holding company is unsecured, interest free, repayable on demand and non-trade in nature.

23. SHARE CAPITAL

	As at 31 December					
	2016		2017		2018	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Ordinary shares, issued and fully paid	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>

24. RESERVES

Details of the movements of Yu Ming reserves are set out in the statements of changes in equity of Historical Financial Information of Yu Ming.

The following describes the nature and purpose of each reserve within owners' equity.

Investment revaluation reserve

Investment revaluation reserve represents changes in fair value of financial assets at fair value through other comprehensive income.

Retained earnings

Cumulative net gains and losses recognised in profit or loss.

25. OPERATING LEASES COMMITMENTS

As at 31 December 2016, 2017 and 2018, the total future minimum lease payments under non-cancellable operating leases by Yu Ming are as follows:

	As at 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Within one year	226	1,050	262
After one year but within five years	—	262	—
	<u>226</u>	<u>1,312</u>	<u>262</u>

Yu Ming leases rental premises under operating leases. The leases run for an initial period of two years, two years and two years as at 31 December 2016, 2017 and 2018 respectively.

As at 31 December 2016, 2017 and 2018, Yu Ming's operating lease commitment to AGL was approximately HK\$50,000, HK\$292,000 and HK\$58,000 respectively.

As at 31 December 2016, 2017 and 2018, Yu Ming's operating lease commitment to a joint venture of AGL was approximately HK\$176,000, HK\$1,020,000 and HK\$204,000 respectively.

26. RELATED PARTY TRANSACTIONS

Saved as those disclosed elsewhere in these financial statements, Yu Ming had the following significant related party transactions during the Track Record Period, which were carried out in the normal course of Yu Ming's business:

	Year ended 31 December		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Received or receivable from SHK Hong Kong Industries Limited ("SHK"), a fellow subsidiary			
Management fee income (<i>Note (i)(a)</i>)	17,424	19,288	17,824
Performance fee income (<i>Note (i)(a)</i>)	–	1,916	–
Sundry income (<i>Note (i)(b)</i>)	<u>1,392</u>	<u>917</u>	<u>999</u>
Received from associates of AGL			
Advisory fee income (<i>Note (i)(c)</i>)	<u>2,000</u>	<u>1,250</u>	<u>–</u>
Receivable from an entity controlled by an executive director and controlling shareholder of AGL			
Advisory fee income (<i>Note (i)(c)</i>)	<u>–</u>	<u>–</u>	<u>3,000</u>
Paid to AGL and its subsidiary			
Rental fee (<i>Note (i)(d)</i>)	202	226	234
Management fee and air conditioning charges (<i>Note (i)(d)</i>)	<u>57</u>	<u>62</u>	<u>59</u>
Paid to a joint venture of AGL			
Rental fee (<i>Note (i)(d)</i>)	702	787	816
Management fee and air conditioning charges (<i>Note (i)(d)</i>)	<u>152</u>	<u>152</u>	<u>152</u>
Interest income from financial assets at fair value through other comprehensive income issued by fellow subsidiaries (<i>Note (iii)</i>)	<u>900</u>	<u>891</u>	<u>571</u>

Notes:

- (i) (a) On 19 November 2012, an investment management agreement (the "Investment Management Agreement") was entered into by Yu Ming and SHK, which was approved by the shareholders of SHK on 28 December 2012. Under the Investment Management Agreement, Yu Ming agreed to assist the board of directors of SHK with the day-to-day management of SHK from 1 January 2013 to 31 December 2015. Yu Ming is entitled to a quarter management fee equal to 0.375% of the consolidated net asset value attributable to the owners of SHK for such quarter, calculated and payable in arrears on a quarterly basis by reference to the arithmetical average of the published consolidated net asset value attributable to the owners of SHK on the last day of each calendar month during each quarter; and a performance fee equal to 20% of the amount by which the audited consolidated net asset value attributable to the owners of SHK of each year ending 31 December, exceeds the audited consolidated net asset value attributable to the owners of SHK as at the end of the latest financial year in which Yu Ming was entitled to a performance fee.

A new investment management agreement (the "New Investment Management Agreement") for three years effective from 1 January 2016, with similar terms set out in the Investment Management Agreement but new annual caps, was approved by the independent shareholders of SHK on 29 December 2015. Details of the New Investment Management Agreement are set out in the related circular of the SHK dated 11 December 2015.

- (b) Yu Ming provided day-to-day management (including office administration and operation) to SHK and fees were charged in accordance with the management agreement.
 - (c) These fees were charged in accordance with the terms mutually agreed by both parties.
 - (d) These fees and charges were paid in accordance with the terms of tenancy agreements.
- (ii) Save as disclosed elsewhere in these financial statements, the other transactions with Yu Ming's related parties mainly related to the expenses paid by Yu Ming on behalf of its related parties and net advances made to Yu Ming's related parties.
 - (iii) The net carrying value of the notes issued by fellow subsidiaries as at 31 December 2016, 2017 and 2018 was HK\$16,009,000, HK\$16,783,000 and HK\$8,062,000 respectively. For the years ended 31 December 2016, 2017 and 2018, interest income from the notes issued by fellow subsidiaries of HK\$900,000, HK\$891,000 and HK\$571,000 respectively were recognised in profit or loss.

Compensation of key management personnel

Remuneration for key management personnel of Yu Ming, including amounts paid to the Directors as disclosed in Note 12(i) and certain highest paid employees as disclosed in Note 12(ii) is as follows:

	Year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	18,635	22,672	11,916
Pension costs – defined contribution plan	198	207	218
	<u>18,833</u>	<u>22,879</u>	<u>12,134</u>

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

Yu Ming is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at Yu Ming's headquarters, in close co-operation with the Board periodically. The overall objectives in managing financial risks focus on securing Yu Ming's short-to-medium-term cash flows by minimising its exposure to financial markets. Long-term financial investments are managed to generate lasting returns with acceptable risk levels.

27.1 Categories of financial assets and liabilities

The carrying amounts and fair values of each of the categories of financial assets and liabilities as at the reporting date are as follows:

	Carrying amounts			Fair values		
	As at 31 December			As at 31 December		
	2016	2017	2018	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets						
<i>Non-current assets</i>						
Financial assets at fair value through other comprehensive income	<u>102,170</u>	<u>16,925</u>	<u>16,263</u>	<u>102,170</u>	<u>16,925</u>	<u>16,263</u>
<i>Current assets</i>						
Financial assets at fair value through other comprehensive income	–	8,461	–	–	8,461	–
Financial assets at fair value through profit or loss	1,028	755	377	1,028	755	377
Financial assets at amortised costs						
– Trade and other receivables	2,191	2,654	4,996	2,191	2,654	4,996
– Amount due from a fellow subsidiary	5,393	7,462	4,575	5,393	7,462	4,575
– Cash and cash equivalents	<u>148,982</u>	<u>257,746</u>	<u>82,937</u>	<u>148,982</u>	<u>257,746</u>	<u>82,937</u>
	<u>157,594</u>	<u>277,078</u>	<u>92,885</u>	<u>157,594</u>	<u>277,078</u>	<u>92,885</u>
	<u>259,764</u>	<u>294,003</u>	<u>109,148</u>	<u>259,764</u>	<u>294,003</u>	<u>109,148</u>
Financial liabilities						
Financial liabilities at amortised cost						
– Other payables and accrued expenses	15,889	19,962	8,315	15,889	19,962	8,315
– Amount due to a holding company	<u>295</u>	<u>335</u>	<u>393</u>	<u>295</u>	<u>335</u>	<u>393</u>
	<u>16,184</u>	<u>20,297</u>	<u>8,708</u>	<u>16,184</u>	<u>20,297</u>	<u>8,708</u>

27.2 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. Most of Yu Ming's transactions are carried out in HK\$. Exposures to currency exchange rates mainly arise from Yu Ming's investments, which are primarily denominated in USD and RMB.

Foreign currency denominated financial assets and liabilities, translated into HK\$ at the closing rates, are as follows:

As at 31 December 2016	USD <i>HK\$'000</i>	RMB <i>HK\$'000</i>
Financial assets	11,693	1
Financial liabilities	—	—
Short-term exposure	<u>11,693</u>	<u>1</u>
Financial assets	94,319	7,851
Financial liabilities	—	—
Long-term exposure	<u>94,319</u>	<u>7,851</u>
As at 31 December 2017	USD <i>HK\$'000</i>	RMB <i>HK\$'000</i>
Financial assets	96,321	8,461
Financial liabilities	—	—
Short-term exposure	<u>96,321</u>	<u>8,461</u>
Financial assets	16,925	—
Financial liabilities	—	—
Long-term exposure	<u>16,925</u>	<u>—</u>
As at 31 December 2018	USD <i>HK\$'000</i>	RMB <i>HK\$'000</i>
Financial assets	43,592	1
Financial liabilities	—	—
Short-term exposure	<u>43,592</u>	<u>1</u>
Financial assets	16,263	—
Financial liabilities	—	—
Long-term exposure	<u>16,263</u>	<u>—</u>

A reasonable change in foreign exchange rate for USD and RMB in the next twelve months is assessed to result in immaterial change in Yu Ming's profit after tax, retained earnings and other components of equity.

27.3 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 rates.

Yu Ming is exposed to fair value interest rate risk for changes in market interest rates through its investments in debt securities. Change in interest rates may affect the value of the debt securities and therefore result in a potential gain or loss to Yu Ming.

Yu Ming is also exposed to cash flow interest rate risk for changes in market interest rates through its deposits at floating interest rates, which are subject to variable interest rates.

The following table indicates the approximate change in Yu Ming's profit after tax (and retained earnings) in response to reasonably possible changes in the interest rates at variable interest rates as at the reporting date.

	2016		Year ended 31 December 2017		2018	
	Increase/ (decrease) in interest rate	Effect on profit after tax and retained earnings HK\$'000	Increase/ (decrease) in interest rate	Effect on profit after tax and retained earnings HK\$'000	Increase/ (decrease) in interest rate	Effect on profit after tax and retained earnings HK\$'000
Deposits	0.5%	745	0.5%	1,289	0.5%	415
Deposits	(0.5%)	(745)	(0.5%)	(1,289)	(0.5%)	(415)

The sensitivity analysis of Yu Ming's exposure to interest rate risk at the reporting date has been determined based on the assumed percentage changes in interest rates taking place at the beginning of the financial year and held constant throughout the year. The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting date. These are the same method and assumption used in preparing the sensitivity analysis included in the financial statement for the year ended 31 December 2015.

27.4 Equity price risk

Equity price risk relates to the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Yu Ming is exposed to equity price changes arising from equity investments classified as trading securities. All of these investments are listed.

Yu Ming's listed investments are primarily listed on The Stock Exchange of Hong Kong Limited. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by Yu Ming.

The following table indicates the approximate change in Yu Ming's profit after tax (and retained earnings) and other components of the equity in response to the reasonably possible changes in the relevant stock market prices, to which Yu Ming has significant exposure at the reporting date.

In response to the reasonably possible change in the market price of the listed securities, Yu Ming's investment in listed securities has the following exposures:

	Year ended 31 December					
	2016		2017		2018	
	Increase/ (decrease) in securities' market price	Effect on profit after tax and retained earnings <i>HK\$'000</i>	Increase/ (decrease) in securities' market price	Effect on profit after tax and retained earnings <i>HK\$'000</i>	Increase/ (decrease) in securities' market price	Effect on profit after tax and retained earnings
Hong Kong market	4%	34	5%	32	5%	16
Hong Kong market	(4%)	(34)	(5%)	(32)	(5%)	(16)

The sensitivity analysis of Yu Ming's exposure to equity price risk at the reporting date has been determined based on the assumed percentage changes in the stock market price or other relevant risk variables taking place at the beginning of the financial year and held constant throughout the year. The assumed changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next reporting date. These are the same method and assumption used in preparing the sensitivity analysis included in the financial statement for the year ended 31 December 2015.

27.5 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 Yu Ming.

The credit risk for liquid funds is considered negligible as the counterparties are reputable financial institutions with high quality and credit ratings.

Yu Ming adopts conservative investment strategies. Usually investments are in liquid securities quoted on recognised stock exchanges, except where entered into for long-term strategic purposes. For investment in debt securities, basically only debt securities with credit ratings of C or above would be considered. Trading accounts are only opened with reputable security brokers. The Board monitors Yu Ming's overall investment position and exposures based on the investment report. For the listed debt securities which are classified as financial assets at fair value through other comprehensive income, the gross carrying amounts with crediting rating between BB+ and B- are HK\$95,091,000, HK\$16,925,000 and HK\$16,263,000 as at 31 December 2016, 31 December 2017 and 31 December 2018 respectively and the loss allowance is measured at an amount equal to 12-month expected credit losses.

Yu Ming's management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality. Yu Ming assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. The Directors are of the opinion that the risk of default by counterparties is low.

None of Yu Ming's financial assets are secured by collateral or other credit enhancements.

Yu Ming considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, Yu Ming compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Yu Ming considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to Yu Ming in full, without recourse by Yu Ming to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

(i) Trade receivables

Yu Ming applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Yu Ming always measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are estimated by reference to past default experience of the debtor and current market condition in relation to each debtor's exposure. The ECLs also incorporate forward-looking information with reference to general macroeconomic conditions that may affect the ability of the debtors to settle receivables. To measure ECLs, the trade receivables have been grouped based on share credit risk characteristics and the days past due according to the ageing as disclosed in note 17. Expected loss rate of current trade receivables are assessed to be 0.1% as the trade receivables mainly represent amounts due from the customers with high credit rating and no history of default. The Directors consider the loss allowance provision for these balances was not material during the Track Record Period. There is no change in the expected credit loss rate for trade receivables during the Track Record Period mainly due to no significant change in the historical default rates of trade receivables based on which the expected credit loss rate is determined.

Set out below is the information about the credit risk exposure on Yu Ming's trade receivables using a provision matrix:

	As at 31 December		
	2016	2017	2018
	Current	Current	Current
Expected credit loss rate	0.1%	0.1%	0.1%
Gross carrying amount (HK\$'000)	2,118	2,406	4,738
Expected credit losses (HK\$'000)	2	2	5

(ii) Other receivables

As at 31 December 2016, 2017 and 2018, the management of Yu Ming takes into account the historical default experience and forward-looking information, as appropriate, for example Yu Ming considers the consistently low historical default rates of counterparties, and concludes that credit risk inherent in Yu Ming's outstanding other receivables is insignificant. The management of Yu Ming has assessed that other receivables do not have a significant increase in credit risk since initial recognition and risk of default is insignificant, therefore the expected credit losses for these receivables are not material under the 12 months expected losses method and no loss allowance provision was recognised during the Track Record Period.

27.6 Liquidity risk

Liquidity risk relates to the risk that Yu Ming will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Yu Ming is exposed to liquidity risk in respect of settlement of other payables and its financing obligations, and also in respect of its cash flow management. Yu Ming's objective is to maintain an appropriate level of liquid assets to meet its liquidity requirements in the short and long term.

Yu Ming manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for 360-day lookout period are identified monthly.

Yu Ming maintains cash, short-term bank deposits and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is secured by the ability to sell long-term financial assets.

Analysed below are Yu Ming's remaining contractual maturities for its non-derivative financial liabilities as at 31 December 2016, 2017 and 2018.

	On demand or less than 6 months HK\$'000
As at 31 December 2016	
Other payables and accrued expenses	15,889
Amount due to a holding company	<u>295</u>
	<u>16,184</u>
As at 31 December 2017	
Other payables and accrued expenses	19,962
Amount due to a holding company	<u>335</u>
	<u>20,297</u>
As at 31 December 2018	
Other payables and accrued expenses	8,315
Amount due to a holding company	<u>393</u>
	<u>8,708</u>

27.7 Fair value measurements

(a) Financial assets carried at fair value

The following table presents financial assets measured at fair value at the reporting date in accordance with fair value hierarchy. The hierarchy groups financial assets into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets measured at fair value in the statements of financial position are grouped into the fair value hierarchy as follows:

	As at 31 December 2016			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Assets				
Financial assets at fair value through other comprehensive income				
– Listed	–	94,319	–	94,319
– Unlisted	–	7,851	–	7,851
Financial assets at fair value through profit or loss				
– Listed securities held for trading	1,028	–	–	1,028
Total fair value	1,028	102,170	–	103,198
As at 31 December 2017				
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through other comprehensive income				
– Listed	–	16,925	–	16,925
– Unlisted	–	8,461	–	8,461
Financial assets at fair value through profit or loss				
– Listed securities held for trading	755	–	–	755
Total fair value	755	25,386	–	26,141
As at 31 December 2018				
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through other comprehensive income				
– Listed	–	16,263	–	16,263
Financial assets at fair value through profit or loss				
– Listed securities held for trading	377	–	–	377
Total fair value	377	16,263	–	16,640

There have been no significant transfers between Levels 1 and 2 in the Track Record Period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged during the Track Record Period.

(b) Valuation techniques and inputs used in Level 2 fair value measurements

Listed and unlisted debt securities

Fair values of listed and unlisted debt securities have been determined by a firm of independent professional valuers, Greater China Appraisal Limited (“GCA”), using valuation techniques as described below:

The methods and assumptions applied for the valuation of these bonds are as follows:

(i) Valuation of debt element

The fair value of the debt element was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to instruments of similar terms. The effective interest rates of the debt element at 31 December 2016, 2017 and 2018, ranging from 4.87% to 8.17%, ranging from 4.49% to 8.54% and ranging from 5.94% to 9.38% respectively.

(ii) Valuation of derivative element

Call option embedded in bond is subject to financial risk exposure in term of interest rate and currency risks.

Hull-White Model with Trinomial Tree Model is used for valuation of derivative element of note (i.e. call option embedded in bond). Significant inputs into the model as at 31 December 2016 were the mean reverting rate of 0.04, default intensity of 5.13% and short rate volatility of 0.01 respectively.

28. CAPITAL MANAGEMENT

Yu Ming’s capital management objectives are to ensure Yu Ming’s ability to continue as a going concern and to provide an adequate return to shareholders.

Yu Ming actively and regularly reviews its capital structure and makes adjustments to the capital structure in light of changes in economic conditions. Yu Ming monitors its capital structure on the basis of debt to equity ratio.

The debt to equity ratio at reporting date was as follows:

	As at 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Borrowings	—	—	—
Total equity	<u>228,662</u>	<u>251,129</u>	<u>86,586</u>
Debt-to-equity ratio	<u>0:1</u>	<u>0:1</u>	<u>0:1</u>

Yu Ming is registered with the SFC for the business it operates in. Yu Ming is subject to liquid capital requirements under Hong Kong Securities and Futures (Financial Resources) Rules (“SF(FR)R”) adopted by the SFC. Under SF(FR)R, Yu Ming must maintain its liquid capital (assets and liabilities adjusted as determined by

SF(FR)R) in excess of statutory floor requirement or 5% its total adjusted liabilities, whichever is higher. The required information is filed with SFC on a regular basis and Yu Ming has complied with those requirements during the Track Record Period.

29. LITIGATIONS

- (1) Zhi, Charles as the plaintiff ("Plaintiff 1") filed a writ of summons ("Writ 1") in December 2016 against (i) Mr. Hung Tsung Chin (an executive director and chairman of Sandmartin International Holdings Limited ("Sandmartin International"), its shares are listed on the main board of The Stock Exchange of Hong Kong (the "Stock Exchange")) (ii) Ms. Chen Mei Huei (an executive director and chief executive officer of Sandmartin International), (iii) Liao Wen I (an executive director of Sandmartin International), (iv) Frank Karl-Heinz Fischer (an executive director of Sandmartin International), (v) Chen Wei Chun (an executive director of Sandmartin International), (vi) Yu Ming and (vii) Sandmartin International (collectively "All Parties") as the defendants under action number HCA 3346/2016 in the High Court of Hong Kong ("High Court"). In Writ 1, the Plaintiff 1 claimed for (i) a declaration that All Parties have committed an offence under Part XV of the Securities and Futures Ordinance ("SFO") which requires directors, chief executives and substantial shareholders to disclose their interests in the shares and debentures of Sandmartin International; (ii) a declaration that Mr. Hung Tsung Chin, Ms. Chen Mei Huei, Liao Wen I, Frank Karl-Heinz Fischer and Chen Wei Chun have breached their fiduciary duties to Sandmartin International; (iii) a declaration that Yu Ming, willfully and knowingly advised Sandmartin International to hide critical information about the connected parties on proposed open offer and specific mandate, announced by Sandmartin International on 24 October 2016; (iv) an order for clarification announcement that the Stock Exchange was not oppressive but not ruled based; and (v) an order for Sandmartin International to exert its power under Section 329 of the SFO to investigate the holders of interests in its shares and debentures. On 29 September 2017, Sandmartin International announced that a consent order was made by the court to dismiss the proceedings against Sandmartin International, Mr. Hung Tsung Chin, Ms. Chen Mei Huei and Liao Wen I.

The Directors, having obtained the legal opinion from the legal advisers that no litigation has yet been commenced against Yu Ming up to the date of this report, although Plaintiff 1 is entitled to serve a writ on any defendant within twelve months of the issue of writ and to apply for extension of the validity of the writ for a period of not exceeding 12 months from the expiry date of the writ and to serve the writ within such extended period, the writ has lapsed since it has not been served within such period, and no demand or claim has been received from Plaintiff 1 in relation to any of the matters mentioned in the said writ, considered that the ultimate outcome and potential obligation of this case cannot be reliably estimated and determined that no provision in respect of this case was made for the year ended 31 December 2016 and for the year ended 31 December 2017 and for the year ended 31 December 2018.

- (2) Mr. Lim Hang Young ("Plaintiff 2") as the plaintiff filed a writ of summons ("Writ 2") in December 2016 against (i) the Stock Exchange; (ii) Yu Ming; and (iii) L & A International Holdings Limited ("L & A International"), its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong as the defendants under a legal proceeding in High Court. Pursuant to the claims generally indorsed on Writ 2, Plaintiff 2 sought, inter alia, for (i) a declaration against Stock Exchange that the Stock Exchange has acted in bad faith in the vetting of the share subscription during the general offer period; (ii) an order against Stock Exchange to rescind all listing approvals; (iii) a declaration against Yu Ming that Yu Ming purposefully ill advised L & A International to break various the Listing Rules, including assisting L & A International in its multi-layer marketing scheme; and (iv) an order against L & A International to apply for self-delisting. On 21 December 2017, L & A International announced that, inter alia, High Court Action No. HCA 3325/2016 against L & A International was dismissed by the High Court on the ground that the Plaintiff 2 failed to file and serve statement of claim on L & A International.

The Directors, having obtained the legal opinion from the legal advisers that no litigation has yet been commenced against Yu Ming up to the date of this report, although Plaintiff 2 is entitled to serve a writ on any defendant within twelve months of the issue of writ and to apply for extension of the validity of the writ for a period of not exceeding 12 months from the expiry date of the writ and to serve the writ within such extended period, the writ has lapsed since it has not been served within

such period, and no demand or claim has been received from Plaintiff 2 in relation to any of the matters mentioned in the said writ, considered that the ultimate outcome and potential obligation of this case cannot be reliably estimated and determined that no provision in respect of this case was made for the year ended 31 December 2016 and for the year ended 31 December 2017 and for the year ended 31 December 2018.

- (3) Mr. Kim Sungho (“Plaintiff 3”) as the plaintiff filed a writ of summons (“Writ 3”) in January 2017 against (i) Strong Light Investments Limited, a substantial shareholder of the L & A International (“Strong Light”); (ii) FP Sino-Rich Securities & Futures Limited (“FP”); (iii) Yu Ming; and (iv) L & A International as the defendants under a legal proceeding in High Court. Pursuant to the claims generally indorsed on Writ 3, Plaintiff 3 sought, inter alia, for (i) a declaration against Strong Light that Strong Light and its parties acting in concert has accumulated over 30% of the outstanding shares in L & A International, thus triggering the mandatory general offer; and (ii) a declaration against FP and Yu Ming that FP purposefully ill advised L & A International to break various Listing Rules, including assisting L & A International in its multi-layer marketing scheme.

The Directors, having obtained the legal opinion from the legal advisers that no litigation has yet been commenced against Yu Ming up to the date of this report, although Plaintiff 3 is entitled to serve a writ on any defendant within twelve months of the issue of writ and to apply for extension of the validity of the writ for a period of not exceeding 12 months from the expiry date of the writ and to serve the writ within such extended period, the writ has lapsed since it has not been served within such period, and no demand or claim has been received from Plaintiff 3 in relation to any of the matters mentioned in the said writ, considered that the ultimate outcome and potential obligation of this case cannot be reliably estimated and determined that no provision in respect of this case was made for the year ended 31 December 2017 and for the year ended 31 December 2018.

- (4) On 8 May 2017 Yu Ming received a writ of summons (“Writ 4”) dated 5 May 2017 filed by China Health Group Limited (formerly China Healthcare Holdings Limited) as plaintiff (“Plaintiff 4”) against (i) Yu Ming; (the “Action”) (ii) 賈虹生; and (iii) 趙愷 as defendants under High Court Action No. HCA1077/2017. Pursuant to the statement of claim therein, Plaintiff 4 sought, inter alia, against Yu Ming a declaration that the engagement letter entered into in March 2016 and another engagement letter entered into in May 2016 between Plaintiff 4 and Yu Ming are void and an order that Yu Ming do forthwith pay the sum of HK\$5,300,000, being the fees paid by Plaintiff 4 to Yu Ming under the said engagement letters, to Plaintiff 4. Yu Ming has appointed legal advisor to act for it in relation to the Action, and based on the information and documents Yu Ming provided to it, such legal adviser is of the opinion that Yu Ming has good prospect of successfully defending the Action. Furthermore, Yu Ming has on 7 June 2017 taken out an application to the court to strike out the Action on the ground that it discloses no reasonable cause of action and/or is frivolous or vexatious and/or is unnecessary and tends to prejudice, embarrass or delay the fair trial of the action and/or is otherwise an abuse of the process of the court. The hearing of the application scheduled to be heard on 21 June 2017 has been adjourned by consent. Plaintiff 4 filed and served its affirmation in opposition to the striking out summons on 29 August 2017, and Yu Ming filed and served its affirmation in reply on 1 November 2017. The hearing for the striking out summons was heard on 19 June 2018 and the application was dismissed. Plaintiff 4 filed its amended statement of claim (which amendments are principally additional details which Plaintiff 4 averred support its claims, but no amendments were made to the actual claims and reliefs sought against the defendants in the statement of claim) on 30 August 2018, Yu Ming has filed its defence and counterclaim by 11 October 2018 and Plaintiff 4 has filed its reply and also served a Mediation Notice on 4 January 2019. Yu Ming served its request for further and better particulars of Plaintiff 4’s reply on 10 January 2019 and filed and served an amended defence on 17 January 2019. Mediation took place on 25 February 2019 but was unsuccessful and the parties failed to reach any agreement. Plaintiff 4 filed and served answers to the request for further and better particulars of Plaintiff 4’s reply on 18 April 2019.

Yu Ming’s legal advisor is of the view that Yu Ming is entitled to rely on the “indoor management rule”, which states that any person contracting with a company and dealing in good faith with the same may assume that acts within its constitution and powers have been properly and duly performed and are not bound to inquire whether acts of internal management have been regular. They are also of the view that there are contemporaneous records and correspondence evidencing Yu Ming’s work

done for the plaintiff pursuant to the engagement letters. Based on the information and documents provided to it by Yu Ming, Yu Ming's legal advisor is of the opinion that, the vagaries of litigation aside, Yu Ming is very likely to successfully defend the Action.

The Directors, having obtained the legal opinion from the legal adviser, considered that the ultimate outcome and potential obligation of this case cannot be reliably estimated and determined that no provision in respect of this case was made for the year ended 31 December 2017 and for the year ended 31 December 2018.

30. EVENTS AFTER REPORTING PERIOD

Saved as disclosed above, there have been no other significant events undertaken by Yu Ming after 31 December 2018 and up to the date of this report.

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Yu Ming in respect of any period subsequent to 31 December 2018.