

Report of the Directors and Audited Financial Statements

ABERDEEN RESTAURANT ENTERPRISES LIMITED

(Incorporated in the Hong Kong with limited liability)

31 December 2017

*The English version shall always prevail in case of any discrepancy or inconsistency between English version and its Chinese translation.*



ABERDEEN RESTAURANT ENTERPRISES LIMITED

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## ABERDEEN RESTAURANT ENTERPRISES LIMITED

### REPORT OF THE DIRECTORS

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

#### Principal activities

The Company is engaged in operating Jumbo Floating Restaurant, souvenir shop and property investment. The activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements..

#### Business review

The Group is principally involved in operating Jumbo Floating Restaurant, souvenir shop and property investment. The principal subsidiaries are set out in note 1 to the financial statements.

The total sales from the restaurant operation increased by approximately 3.9 % to HK\$88.6 million. Among the F&B operation, even local living index and inflation seriously rising, local banquet and wedding sales increased approximately 20% while tour group sales declined approximately 17%. But, the total number of customers recorded a drop of approximately 1.6%.

During the year, the Group implemented appropriate cost-control measures. As a result, the total operating costs are remained at the same level as in last year. The Group has also put in considerable efforts to further improve the quality of food and services and promotional campaigns were launched to boost market sales. To comply with new regulations and to improve workplace safety, the buoying improvement construction of seafood barge has been completed. Furthermore, the Company decided to construct a new kitchen vessel which is expected to be in service in 2019.

In the coming years, the Group will take advantage of the upturn of Hong Kong economy to seek for appropriate opportunities to further strengthen the Group's earning potential.

#### Environmental policies and performance

The Company recognizes the importance of environmental sustainability against modern ecological challenges. To enhance environmental awareness and encourage daily participation among staff in the continuous improvement of environmental protection, the Company implements green office practices, such as implementing paperless practice whenever possible, engaging staff regularly on low carbon office measures and encouraging them to switch off non-essential lights and maintain an average indoor temperature between 24-26 degree Celsius. Furthermore, the Company has replaced T5 fluorescent lamp fixture in car park podium with a professional assessment report of energy saving 41% in a year. The Company commits to the long term sustainability of environment protection to maintain a wastewater treatment system at the barge of Jumbo Floating Restaurant for treating and processing the effluent from the restaurant. The Company will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of the Company's businesses to enhance environmental sustainability.

#### Compliance with the relevant laws and regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. The Board considers that there is no compliance issue that has a significant impact on the Company. The Board monitors the Company's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees from time to time.

## ABERDEEN RESTAURANT ENTERPRISES LIMITED

### REPORT OF THE DIRECTORS

#### Relationships with employees, suppliers and customers

The Company understands that employees are valuable assets. It regularly reviews the remuneration package of employees and makes necessary adjustments taking into account the prevailing market conditions.

The Company also understands the importance of maintaining good relationship with its suppliers and customers. It has established long term business relationship with the suppliers which ensures delivering constantly high standards of quality in the products and services. The Company maintains close relationship with the customers. During the year, there was no material and significant dispute between the Group and its suppliers, customers and /or other stakeholders.

#### Dividend

The directors do not recommend the payment of dividend in respect of the year.

#### Directors

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

##### *Executive directors*

Dr. Stanley Ho  
Mr. Ho, Lawrence Yau Lung  
Ms. Lo Sau Yan, Sharen  
Madam Chu Bick Yuk  
Mr. Tsui Che Yin, Frank  
Mr. Tsang Yuen Wai, Samuel

##### *Non-executive directors*

Dr. Cheng Kar Shun, Henry  
Ms. Fong Siu Yee, Irene  
Mr. Ho Pak Tao  
Madam Laam King Ying, Lucina  
Madam Lai Miu Hing  
Mr. Lam Kam Chan  
Mr. Law Kwing Sum  
Mr. Li Kwok Po, David  
Ms. Wong Man Hing, Alice  
Mr. Wong Tai Yu

In accordance with the Company's articles of association, all directors shall retire and are eligible to offer themselves for re-election at the forthcoming ordinary general meeting (the "2018 AGM").

Thirteen directors including Dr. Ho Hung Sun, Stanley, Mr. Ho, Lawrence Yau Lung, Ms. Lo Sau Yan, Sharen, Madam Laam King Ying, Lucina, Mr. Tsui Che Yin, Frank, Mr. Tsang Yuen Wai, Samuel, Mr. Lam Kam Chan, Madam Chu Bick Yuk, Madam Lai Miu Hing, Mr. Wong Tai Yu, Mr. Li Kwok Po, David, Mr. Cheng Kar Shun, Henry and Mr. Ho Pak Tao have indicated that they will not stand for re-election at the 2018 AGM and will retire as directors after the conclusion of the 2018 AGM. Three directors including Mr. Law Kwing Sum, Ms. Fong Siu Yee, Irene and Ms. Wong Man Hing, Alice will retire from office at the 2018 AGM and, being eligible, offer themselves for re-election at the 2018 AGM.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

REPORT OF THE DIRECTORS

Directors' interests

Save for the share option scheme and the share award scheme of Melco International Development Limited ("Melco International"), the ultimate holding company, as disclosed in note 38 to the consolidated financial statements of Melco International to be included in Melco International's 2017 annual report, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in transactions, arrangements or contracts

Save as disclosed in note 25 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which any of the Company's holding companies, subsidiaries or fellow subsidiaries was a party during the year.

Equity-linked agreements

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Permitted indemnity provision

The articles of association of the Company provides that each director, or officer of the Company, or any person (whether an officer of the Company or not) employed by the Company as auditor shall be indemnified out of the funds of the Company against all liability incurred by him as such director, officer or auditor in defending any proceedings whether civil or criminal in which judgment is given in his favour, or in which he is acquitted or in connection with any application under the Companies Ordinance in which relief is granted to him by the Court.

Auditor

During the year, Deloitte Touche Tohmatsu resigned as auditor of the Company and Ernst & Young were appointed by the directors to fill in the casual vacancy so arising. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the 2018 AGM.

ON BEHALF OF THE BOARD



.....  
Ho, Lawrence Yau Lung  
Director

Hong Kong  
29 March 2018



Ernst & Young  
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1 Tim Mei Avenue  
Central, Hong Kong

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## **Independent auditor's report**

**To the members of Aberdeen Restaurant Enterprises Limited**  
(Incorporated in the Hong Kong with limited liability)

### **Opinion**

We have audited the consolidated financial statements of Aberdeen Restaurant Enterprises Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 48, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### **Basis for opinion**

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

### **Information other than the consolidated financial statements and auditor's report thereon**

The directors are responsible for the other information. The other information comprises the information included in the report of the directors.

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

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

### **Responsibilities of the directors for the consolidated financial statements**

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

**Independent auditor's report (continued)**  
**To the members of Aberdeen Restaurant Enterprises Limited**  
(Incorporated in the Hong Kong with limited liability)

**Responsibilities of the directors for the consolidated financial statements (continued)**

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

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

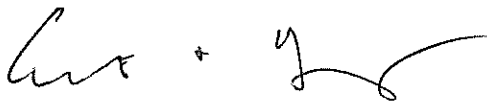
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could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

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**Independent auditor's report (continued)**  
**To the members of Aberdeen Restaurant Enterprises Limited**  
(Incorporated in the Hong Kong with limited liability)

**Auditor's responsibilities for the audit of the consolidated financial statements (continued)**  
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink, consisting of a stylized first name followed by a plus sign and a second name.

Certified Public Accountants  
Hong Kong  
29 March 2018



ABERDEEN RESTAURANT ENTERPRISES LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 HK\$	2016 HK\$
REVENUE	4	88,508,078	85,151,410
Cost of sales		<u>(25,165,956)</u>	<u>(23,653,777)</u>
Gross profit		63,342,122	61,497,633
Other income and gains, net	4	1,727,521	1,557,949
Administrative expenses		(76,367,479)	(73,163,772)
Increase in fair value of investment properties	10	84,000,000	11,695,320
Finance costs	5	<u>(545,002)</u>	<u>(566,928)</u>
PROFIT BEFORE TAX	6	72,157,162	1,020,202
Income tax	7	<u>-</u>	<u>-</u>
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>72,157,162</u>	<u>1,020,202</u>
Profit and total comprehensive income attributable to:			
Owner of the Company		72,161,915	1,007,644
Non-controlling interests		<u>(4,753)</u>	<u>12,558</u>
		<u>72,157,162</u>	<u>1,020,202</u>

ABERDEEN RESTAURANT ENTERPRISES LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK\$	2016 HK\$
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	7,906,790	4,752,338
Investment properties	10	274,000,000	190,000,000
Available-for-sale investment	11	-	-
Loan to the ultimate holding company	14	19,035,000	24,015,000
Loan to an immediate holding company	16	27,500,000	27,500,000
Total non-current assets		<u>328,441,790</u>	<u>246,267,338</u>
<b>CURRENT ASSETS</b>			
Inventories	12	1,716,671	1,939,140
Loan to the ultimate holding company	14	4,980,000	4,980,000
Due from the ultimate holding company	15	138,003	174,782
Due from an immediate holding company	15	7,007	7,007
Due from fellow subsidiaries	15	417,553	412,698
Trade receivables	13	2,283,202	1,528,364
Prepayments, deposits and other receivables		4,065,293	5,286,495
Restricted cash		947,000	947,000
Bank deposits with original maturity over three months	17	78,641,556	50,421,880
Cash and bank balances	17	13,183,133	5,567,976
		<u>106,379,418</u>	<u>71,265,342</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	60,075,115	9,040,321
Receipts on accounts		285,000	-
Due to fellow subsidiaries	15	10,100	358,528
Interest-bearing bank borrowings	19	4,980,000	4,980,000
		<u>65,350,215</u>	<u>14,378,849</u>
<b>NET CURRENT ASSETS</b>		<u>41,029,203</u>	<u>56,886,493</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>369,470,993</u>	<u>303,153,831</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	19	19,330,000	24,310,000
Receipts on accounts		-	860,000
		<u>19,330,000</u>	<u>25,170,000</u>
<b>Net assets</b>		<u>350,140,993</u>	<u>277,983,831</u>

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ABERDEEN RESTAURANT ENTERPRISES LIMITED

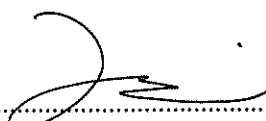
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2017

	Notes	2017 HK\$	2016 HK\$
<b>EQUITY</b>			
<b>Equity attributed to owners of the Company</b>			
Issued capital	20	25,075,000	25,075,000
Reserves		<u>324,833,470</u>	<u>252,671,555</u>
		349,908,470	277,746,555
Non-controlling interests		<u>232,523</u>	<u>237,276</u>
Total equity		<u><u>350,140,993</u></u>	<u><u>277,983,831</u></u>



.....  
Ho, Lawrence Yau Lung  
Director



.....  
Tsui Che Yin, Frank  
Director

ABERDEEN RESTAURANT ENTERPRISES LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributed to the owners of the Company			Total HK\$	Non- controlling interests HK\$	Total HK\$
	Share capital HK\$	Revaluation reserves HK\$	Retained profits HK\$			
At 1 January 2016	25,075,000	17,731,619	233,932,292	276,738,911	244,718	276,963,629
Profit for the year and total comprehensive income for the year	-	-	1,007,644	1,007,644	12,558	1,020,202
At 31 December 2016 and 1 January 2017	25,075,000	17,731,619*	234,939,936*	277,746,555	237,276	277,983,831
Profit for the year and total comprehensive income for the year			72,161,915	72,161,915	(4,753)	72,157,162
At 31 December 2017	<u>25,075,000</u>	<u>17,731,619*</u>	<u>307,101,851*</u>	<u>349,908,470</u>	<u>232,523</u>	<u>350,140,993</u>

\* These reserve accounts comprise the consolidated reserves of HK\$324,833,470 (2016: HK\$252,671,555) in the consolidated statement of financial position.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK\$	2016 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		72,157,162	1,020,202
Adjustments for:			
Bank interest income	4	( 609,608)	( 446,402)
Other interest income	4	( 752,903)	( 805,556)
Loss on disposal of items of property, plant and equipment, net	6	21,058	13,765
Increase in fair value of investment properties	10	( 84,000,000)	( 11,695,320)
Depreciation of items of property, plant and equipment	6	1,561,401	1,886,737
Finance costs	5	545,002	566,928
		<u>( 11,077,888)</u>	<u>( 9,459,646)</u>
Decrease/(increase) in inventories		222,469	( 208,525)
Decrease in due from an immediate holding company		-	509
Decrease/(increase) in due from fellow subsidiaries		( 4,855)	456,747
Increase in trade receivables		( 754,838)	( 262,871)
Decrease/(increase) in prepayments, deposits and other receivables		1,221,202	( 2,341,573)
Increase/(decrease) in due to fellow subsidiaries		( 348,428)	358,528
Increase/(decrease) in trade and other payables		<u>1,034,794</u>	<u>( 2,151,339)</u>
Net cash flows used in operating activities		<u>( 9,707,544)</u>	<u>( 13,608,170)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Receipt of bank deposits with original maturity over three months		121,448,745	141,041,367
Repayment from the ultimate holding company		5,016,779	4,999,091
Repayment from an immediate holding company		-	2,000,000
Receipt of deposit from disposal of investment properties		50,000,000	-
Interest received		1,362,511	1,251,958
Placement of bank deposits with original maturity over three months		(149,668,421)	(131,243,655)
Purchases of property, plant and equipment		( 4,736,911)	( 272,893)
Addition to investment properties		<u>-</u>	<u>( 304,680)</u>
Net cash flows from investing activities		<u>23,422,703</u>	<u>17,471,188</u>

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ABERDEEN RESTAURANT ENTERPRISES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2017

	Notes	2017 HK\$	2016 HK\$
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of interest-bearing bank borrowings		( 4,980,000)	( 4,980,000)
Repayment to debenture holders		( 575,000)	-
Interest paid		( 545,002)	( 566,928)
Net cash used in financing activities		<u>( 6,100,002)</u>	<u>( 5,546,928)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		7,615,157	( 1,683,910)
		<u>5,567,976</u>	<u>7,251,886</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>13,183,133</u>	<u>5,567,976</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	17	<u>13,183,133</u>	<u>5,567,976</u>

# ABERDEEN RESTAURANT ENTERPRISES LIMITED

## NOTES TO FINANCIAL STATEMENTS

31 December 2017

### 1. CORPORATE AND GROUP INFORMATION

Aberdeen Restaurant Enterprises Limited (the "Company") is a limited liability company incorporated in the Hong Kong. The registered office of the Company is located at 38<sup>th</sup> Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong and the principal place of business of the Company is located at Shum Wan Pier Drive, Wong Chuk Hang, Aberdeen, Hong Kong. In the opinion of directors, its immediate holding company is Melco Leisure and Entertainment Group Limited, a private limited company incorporated in the British Virgin Islands. Its ultimate holding company is Melco International Development Limited ("Melco International"), a company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the operations of Jumbo Floating Restaurant, souvenir shop and property investment.

#### Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

<u>Name of subsidiary</u>	<u>Place of registration and operations</u>	<u>Paid up and registered capital</u>	<u>Percentage of equity attributable to the Company</u>	<u>Principal activities</u>
Tai Pak Sea-Food Restaurant Limited	Hong Kong	HK\$1,350,000	97.78%	Lease out a floating restaurant to the Company
Sea Palace, Limited	Hong Kong	HK\$1,950,000	99.74%	Dormant
Jumbo Catering Management Limited	Hong Kong	HK\$1,100,000	100%	Provision of management services
J Kitchen Catering Management Limited	Hong Kong	HK\$1	100%	Dormant

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, and equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollar ("HK\$"), which is also the Company's functional currency.

# ABERDEEN RESTAURANT ENTERPRISES LIMITED

## NOTES TO FINANCIAL STATEMENTS

31 December 2017

### 2.1 BASIS OF PREPARATION

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of its subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interests and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.



ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12</i>
<i>Improvements to HKFRSs 2014-2016 Cycle</i>	

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 22 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The nature and the impact of the amendments are described below:

- (a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 22 to the financial statements.
- (b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilize a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> <sup>1</sup>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> <sup>1</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>1</sup>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> <sup>1</sup>
HKFRS 16	<i>Leases</i> <sup>2</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>3</sup>
Amendments to HKAS 28	<i>Investments in Associates and Joint Ventures</i> <sup>2</sup>
Amendments to HKAS 40	<i>Transfers of Investment Property</i> <sup>1</sup>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i> <sup>1</sup>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> <sup>2</sup>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28 <sup>1</sup>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to the following standards: - <i>HKFRS 3 Business Combination</i> <sup>2</sup> - <i>HKFRS 11 Joint Arrangement</i> <sup>2</sup> - <i>HKAS 12 Income Taxes</i> <sup>2</sup> - <i>HKAS 23 Borrowing Cost</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS  
(continued)

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognize any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarized as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS  
(continued)

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortized cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and other receivables. While historical credit losses are immaterial, the adoption of an expected credit loss model impairment model may result in earlier recognition of credit losses from the Group's trade receivables.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the transitional provisions in HKFRS 15 to recognize the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

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NOTES TO FINANCIAL STATEMENTS

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS  
(continued)

The expected impacts arising from the adoption of HKFRS 15 on the Group are summarized as follows:

Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of these disclosure requirements will not be significant. In particular, the Group expects that the notes to the financial statements will not be significantly expanded because no significant judgements are made on determining the transaction prices of those contracts, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation.

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 23(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$126,800. Upon adoption of HKAS 16, certain amounts included therein may need to be recognized as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognized, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS  
(continued)

Amendments to HKAS 40 were issued with the purpose of clarifying when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group expects to adopt the amendments from 1 January 2018.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognizes a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognizing the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

# ABERDEEN RESTAURANT ENTERPRISES LIMITED

## NOTES TO FINANCIAL STATEMENTS

31 December 2017

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest input that is significant to the fair value measurement as a whole) at the end of each reporting period.)



ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill, deferred tax assets, inventories, income tax recoverable, financial assets and non-current assets and assets of a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
  - (i) has controls or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a holding company of the Group;

or

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity; and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value, if any, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Restaurant vessels, ferries and pontoons	5% to 10%
Operating equipment	10 %
Properties	2.5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefit are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Lease premiums for land under operating leases are stated at cost less any accumulated impairment losses and amortised on the straight-line basis over the lease terms.

Investment and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment and other financial assets (continued)

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other operating expenses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in other operating expenses in profit or loss.

# ABERDEEN RESTAURANT ENTERPRISES LIMITED

## NOTES TO FINANCIAL STATEMENTS

31 December 2017

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to a related company and directors, and interest-bearing bank borrowings.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices for inventories less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated 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 amounts of cash, 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 the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred taxes assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.



ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is reduced from estimated customers returns, rebates and other similar allowances. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sales of goods is recognised when the goods are delivered and titles have passed;
- (b) from the provision of catering services and other services are recognized when the services are provided;
- (c) interest income, on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset; and
- (d) rental income, on a time proportion basis over the lease terms.

Employee benefits

*Employment Ordinance long service payments*

Under the Employment Ordinance, certain of the Group's employees will be eligible for long service payments upon completion of the required number of years of service to the Group. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the end of the reporting period, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

*Retirement benefits schemes*

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

Borrowing costs

Borrowing costs are recognised as expenses in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in customers that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

(a) Impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables. This estimate is based on the evaluation of collectibility and ageing analysis of accounts and on management's estimation in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where the expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been changed. The carrying amount of trade receivables carried as assets in the consolidated statement of financial position as at 31 December 2017 was HK\$2,283,202 (2016: HK\$1,528,364), details of which are set out in notes 13 to the financial statements.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(b) Impairment of property, plant and equipment

The carrying amounts of items of property, plant and equipment are reviewed for impairment annually or, where appropriate, when events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is calculated as the higher of an asset's or cash generating unit's fair value less costs of disposal and value in use, and calculations involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of the catering services rendered during the year.

An analysis of revenue, other income and gains, net, is as follows:

	2017 HK\$	2016 HK\$
<u>Revenue</u>		
Catering services	83,133,240	79,412,957
Sales from souvenir shop	271,182	293,120
Rental income	5,103,656	5,445,533
	<u>88,508,078</u>	<u>85,151,410</u>
<u>Other income</u>		
Bank interest income	609,608	446,406
Other interest income	752,903	805,556
Sundry income	365,010	305,987
	<u>1,727,521</u>	<u>1,557,949</u>

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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5. FINANCE COSTS

	2017 HK\$	2016 HK\$
Interest on interest-bearing bank borrowings	<u>545,002</u>	<u>566,928</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Note	2017 HK\$	2016 HK\$
Rental income		(5,103,656)	(5,445,333)
Less: outgoings		<u>287,722</u>	<u>264,721</u>
		<u>(4,815,934)</u>	<u>(5,180,612)</u>
Auditor's remuneration		115,000	195,000
Depreciation of items of property, plant and equipment	9	1,561,401	1,886,737
Loss on disposal of property, plant and equipment		21,058	13,765
Directors' remuneration:			
Fees		330,000	420,000
Pension scheme contributions		27,018	26,424
Other emoluments		<u>1,274,940</u>	<u>1,096,320</u>
		<u>1,631,958</u>	<u>1,542,744</u>
Other employee benefits expense (excluding directors' remuneration):			
Wages and salaries		48,892,124	45,916,901
Pension scheme contributions		<u>2,150,482</u>	<u>2,110,376</u>
		<u>51,042,606</u>	<u>48,027,277</u>

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Company did not generate any assessable profits arising in Hong Kong during the year (2016: Nil).

A reconciliation of the tax credit applicable to profit before tax at the Hong Kong statutory tax rate to the tax amount at the Company's effective tax rate is as follows:

	2017 HK\$	2016 HK\$
Profit before tax	<u>72,157,162</u>	<u>1,020,202</u>
Tax at the Hong Kong statutory tax rate of 16.5%	11,905,932	168,334
Income not subject to tax	(13,960,565)	( 2,003,385)
Expenses not deductible for tax	-	-
Utilisation of deductible temporary differences previously not recognised	(304,512)	( 213,238)
Tax losses not recognised	<u>2,359,145</u>	<u>2,048,289</u>
Tax charge at the effective rate	<u>-</u>	<u>-</u>

As at 31 December 2017, the Group has unused tax losses of approximately HK\$97,279,000 (2016: HK\$82,676,000) available for offset against future profits. No deferred tax assets has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$21,636,000 (31 December 2016: HK\$23,481,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

8. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2016: Nil).

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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9. PROPERTY, PLANT AND EQUIPMENT

	Restaurant vessels, ferries and pontoons HK\$	Operating equipment HK\$	Properties HK\$	Total HK\$
<b>Cost</b>				
At 1 January 2016	76,326,690	54,572,992	140,182	131,039,864
Additions	-	272,893	-	272,893
Disposal/written off	-	( 86,457)	-	( 86,457)
At 31 December 2016	76,326,690	54,759,428	140,182	131,226,300
Additions	4,408,842	328,069	-	4,736,911
Disposal/written off	( 100,000)	( 258,425)	-	( 358,425)
At 31 December 2017	<u>80,635,532</u>	<u>54,829,072</u>	<u>140,182</u>	<u>135,604,786</u>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2016	72,709,966	51,869,134	80,817	124,659,917
Charge for the year	1,313,274	570,862	2,601	1,886,737
Disposal/written off	-	( 72,692)	-	( 72,692)
At 31 December 2016	74,023,240	52,367,304	83,418	126,473,962
Charge for the year	1,024,328	534,472	2,601	1,561,401
Disposal/written off	( 100,000)	( 237,367)	-	( 337,367)
At 31 December 2017	<u>74,947,568</u>	<u>52,664,409</u>	<u>86,019</u>	<u>127,697,996</u>
Net book value at 31 December 2017	<u>5,687,964</u>	<u>2,164,663</u>	<u>54,163</u>	<u>7,906,790</u>
Net book value at 31 December 2016	<u>2,303,450</u>	<u>2,392,124</u>	<u>56,764</u>	<u>4,752,338</u>

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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10. INVESTMENT PROPERTIES

	2017 HK\$	2016 HK\$
Carrying amount at the beginning of the year	190,000,000	178,000,000
Additions	-	304,680
Net increase in fair value recognized in profit or loss	<u>84,000,000</u>	<u>11,695,320</u>
Carrying amount at the end of the year	<u>274,000,000</u>	<u>190,000,000</u>

All of the Group's investment properties are rented out under operating leases to earn rentals or for capital appreciation purposes and are measured using the fair value model, classified and accounted for as investment properties. All of the Group's investment properties have been pledged to secure the banking facilities granted to the Group.

In estimating the fair value of investment properties, the Group engages third party qualified external valuer to perform the valuation. The management works closely with the qualified external valuer to establish the appropriate valuation technique and inputs to the model.

The fair value of the Group's investment properties as at 31 December 2017 and 2016 have been arrived at on the basis of a valuation carried out on the respective dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group.

The fair value was determined based on the income capitalization method. Income capitalization method is by making reference to the rental income of the subject property and discounted by the market yield expected by the investors for this type of properties. The market yield is derived from analyzing the sales transactions and rental of similar properties in the vicinity and adjusted to take into account the market expectation from property investors to reflect factors specific to the investment properties. The bulk discount rate, which approximates to 30% to reflect the fact that the car parking spaces have to be disposed of in the market as a whole and not on an individual unit basis. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

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10. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Company's investment:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2017 HK\$	2016 HK\$
Investment properties	<u>274,000,000</u>	<u>190,000,000</u>

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

**Level 3 fair value measurement**

Description	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Fair value	
				2017 HK\$'000	2016 HK\$'000
Car parking spaces	Income capitalization method				
	(1) Monthly rental income	Monthly rental income, taking into account the average monthly rental of HK\$566,378 (2016: HK\$541,887)	An increase in the monthly rental income used would result in an increase in fair value, and vice versa	274,000	190,000
	(2) Bulk discount rate	Bulk discount rate approximates to 30% (2016: 30%) of the fair value of the car parking spaces has been used for valuation.	An increase in the discount rate used would result in a decrease in fair value, and vice versa.		

There were no transfer into or out of Level 3 during the year.

11. AVAILABLE-FOR-SALE INVESTMENT

	2017 HK\$	2016 HK\$
Cost	-	117
Less: impairment	-	(117)
	<u>-</u>	<u>-</u>

Note: The available-for-sale investment was written-off in current year.



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12. INVENTORIES

	2017 HK\$	2016 HK\$
Food and beverages	1,206,106	1,302,193
Souvenirs	105,959	156,955
Fuel	172,817	167,139
Other consumables	<u>231,789</u>	<u>312,853</u>
	<u>1,716,671</u>	<u>1,939,140</u>

13. TRADE RECEIVABLES

	2017 HK\$	2016 HK\$
Trade receivables	<u>2,283,202</u>	<u>1,528,364</u>

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Company seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk.

Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Company's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing. They are stated net of provisions.

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 HK\$	2016 HK\$
Within 30 days	1,654,147	1,096,912
31 – 90 days	626,055	427,581
Over 90 days	<u>3,000</u>	<u>3,871</u>
	<u>2,283,202</u>	<u>1,528,364</u>

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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14. LOAN TO THE ULTIMATE HOLDING COMPANY

As at 31 December 2017, loan to the ultimate holding company includes HK\$24,015,000 (2016: HK\$28,995,000) which is unsecured, interest bearing at Hong Kong Interbank Offered Rate (“HIBOR”) plus 2% (2016: HIBOR plus 2%) per annum, in which HK\$4,980,000 (2016: HK\$4,980,000) is repayable within one year and the remaining portion is repayable after one year.

15. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES, AN IMMEDIATE HOLDING COMPANY AND THE ULTIMATE HOLDING COMPANY

The balances are unsecured, non-interest bearing and repayable on demand.

16. LOAN TO AN IMMEDIATE HOLDING COMPANY

As at 31 December 2017, loan to an immediate holding company of HK\$27,500,000 (2016: HK\$27,500,000) is unsecured, interest bearing at the deposit rate offered by the Hong Kong and Shanghai Banking Corporation for a deposit of similar amount and term, and shall be repayable on demand.

17. CASH AND BANK BALANCES

Bank deposits with original maturity over three months carry fixed interest rate at about 1% (2016: 0.75%) per annum. Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less carrying prevailing deposit interest rate at about 0.3% (2016: 0.3%) per annum.

18. TRADE PAYABLES

The trade payables are non-interest bearing and are normally settled on terms of 30 to 90 days.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

19. INTEREST-BEARING BANK BORROWINGS

	2017 HK\$	2016 HK\$
Interest-bearing bank borrowings, secured	<u>24,310,000</u>	<u>29,290,000</u>
Analyzed into:		
Interest-bearing bank borrowings repayable:		
Within one year	4,980,000	4,980,000
More than one year, but not exceeding two years	9,960,000	9,960,000
More than two years, but not exceeding five years	<u>9,370,000</u>	<u>14,350,000</u>
	<u>24,310,000</u>	<u>29,290,000</u>

All the bank borrowings are denominated in HK\$, the functional currency of relevant group entities, with interest rates of HIBOR plus 1.5% (2016: HIBOR plus 1.5%) per annum.

For the year ended 31 December 2017, the effective interest rate on the borrowings was 2.02% (2016: 1.80%) per annum.

20. SHARE CAPITAL

	2017 HK\$	2016 HK\$
<b>Class A shares</b>		
Issued and fully paid:		
8,060 ordinary shares of with no par value	<u>8,060,000</u>	<u>8,060,000</u>
<b>Class B shares</b>		
Issued and fully paid:		
33,930 ordinary shares of with no par value	<u>17,015,000</u>	<u>17,015,000</u>

Class A shares and Class B shares rank equally with each other as to the right to dividend, voting and participation in surplus assets on a winding up and in all other respects according to the number of such shares respectively and not according to the nominal value thereof nor to the amount paid up thereon.

21. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 10 of the financial statements.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

22. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings HK\$	Receipt on accounts HK\$
At 1 January 2017	29,290,000	860,000
Changes from financing cash flows	(5,525,002)	(575,000)
Interest expenses	<u>545,002</u>	<u>-</u>
At 31 December 2017	<u><u>24,310,000</u></u>	<u><u>285,000</u></u>

23. OPERATING LEASE ARRANGEMENTS

(a) As lessor

At the end of the reporting period, the Group has entered into lease arrangements with certain tenants for its investment properties and have committed tenants for the next year. At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases.

	2017 HK\$	2016 HK\$
Within one year	4,778,600	3,496,400
In the second to fifth years, inclusive	<u>8,293,800</u>	<u>-</u>
	<u><u>13,072,400</u></u>	<u><u>3,496,400</u></u>

(b) As lessee

Minimum lease payments paid under operating leases during the year in respect of office premises were HK\$126,800 (2016: HK\$ nil). Lease for office premises are negotiated for terms of three years.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 HK\$	2016 HK\$
Within one year	<u><u>126,800</u></u>	<u><u>-</u></u>

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

24. CAPITAL COMMITMENTS

	2017 HK\$	2016 HK\$
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements	<u>515,000</u>	<u>515,000</u>

25. RELATED PARTY DISCLOSURES

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with the related parties during the year:

	2017 HK\$	2016 HK\$
<u>Directors</u>		
Catering income	461,514	608,569
<u>Fellow subsidiaries</u>		
Catering income	321,563	547,996
Website service fees paid	( 270,000)	( 270,000)
<u>Directors' associate companies</u>		
Catering income	332,445	354,910
Insurance premium paid	(1,530,855)	(1,269,443)
<u>Immediate holding company</u>		
Interest income	670,403	718,819
<u>Ultimate holding company</u>		
Interest income	<u>82,500</u>	<u>86,737</u>

The transactions were conducted at rates or prices mutually agreed between both parties.

- (b) Other transactions and balances with related parties
- (i) Details of the Group's balances with related companies included in trade receivables is disclosed in notes 14, 15 and 16 to the consolidated financial statements.
- Note: The related companies are associates of the directors of the Company.
- (ii) Key management personnel represented directors of the Company. Further details of directors' emoluments are included in note 6 to the financial statements.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

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26. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values and, accordingly, no disclosure of the fair values of these financial instruments is made.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances and interest-bearing bank borrowings, which are held for the purpose of financing the Group's operations. The Group has various other financial instruments such as trade receivables, deposits and other receivables, trade payables, other payables and accruals which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the directors analyse and formulate measures periodically to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

The directors review and agree policies for managing each of these risks and they are summarised below:

*Interest rate risk*

The Group's exposure to interest rate risk relates principally to bank deposits and bank deposits with original maturity over three months. The Group is also exposed to interest rate risk in relation to loans to the ultimate holding company and immediate holding company, interest-bearing bank borrowings which are based on the Hong Kong Interbank Offered Rate. The Group mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

As at 31 December 2017, if the interest rates had been 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the profit before tax for the year would have been increased/decreased by HK\$600,000 (2016: increased/decreased by HK\$421,000) as a result of higher/lower interest expenses on the Group's cash balance net of interest-bearing bank borrowings.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

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27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Credit risk*

The carrying amounts of cash and bank balances, trade receivables and other receivables (except for prepayments), represent the Group's maximum exposure to credit risk in relation to financial assets. Most of the Group's cash and cash equivalents are held in major financial institutions located in Hong Kong, which management believes are of high credit quality. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The directors consider that the Group does not have a significant concentration of credit risk.

*Liquidity risk*

The Group's exposure to liquidity risk is minimal as the Group will maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet their liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

2017	On demand HK\$	Less than 3 months HK\$	3 to less than 12 months HK\$	1 to 5 years HK\$	Over 5 years HK\$	Total HK\$
Trade and other payables	2,951,532	-	-	-	-	2,951,532
Receipts on accounts	285,000	-	-	-	-	285,000
Interest-bearing bank borrowings	-	1,360,094	4,079,443	20,125,376	-	25,564,913
Due to fellow subsidiaries	10,100	-	-	-	-	10,100
	<u>3,246,632</u>	<u>1,360,094</u>	<u>4,079,443</u>	<u>20,125,376</u>	<u>-</u>	<u>28,811,545</u>
2016	On demand HK\$	Less than 3 months HK\$	3 to less than 12 months HK\$	1 to 5 years HK\$	Over 5 years HK\$	Total HK\$
Trade and other payables	2,503,497	-	-	-	-	2,503,497
Receipts on accounts	860,000	-	-	-	-	860,000
Interest-bearing bank borrowings	-	1,364,347	4,099,433	20,960,332	4,426,414	30,850,526
Due to fellow subsidiaries	358,528	-	-	-	-	358,528
	<u>3,722,025</u>	<u>1,364,347</u>	<u>4,099,433</u>	<u>20,960,332</u>	<u>4,426,414</u>	<u>34,572,551</u>

All financial assets and liabilities of the Group as at 31 December 2017 and 2016 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

ABERDEEN RESTAURANT ENTERPRISES LIMITED

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28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK\$	2016 HK\$
NON-CURRENT ASSETS		
Property, plant and equipment	7,375,243	4,143,665
Investment properties	274,000,000	190,000,000
Investments in and advances to subsidiaries	3,841,196	3,884,600
Loan to the ultimate holding company	19,035,000	24,015,000
Loan to an immediate holding company	27,500,000	27,500,000
Total non-current assets	<u>331,751,439</u>	<u>249,543,265</u>
CURRENT ASSETS		
Inventories	1,716,671	1,939,140
Loan to the ultimate holding company	4,980,000	4,980,000
Due from the ultimate holding company	138,003	174,782
Due from an immediate holding company	7,007	7,007
Due from fellow subsidiaries	417,553	412,698
Trade receivables	2,283,202	1,528,364
Prepayments, deposits and other receivables	3,636,946	4,862,514
Restricted cash	947,000	947,000
Bank deposits with original maturity over three months	78,641,556	50,421,880
Cash and bank balances	12,836,371	4,902,278
	<u>105,604,309</u>	<u>70,175,663</u>
CURRENT LIABILITIES		
Trade and other payables	60,045,615	9,010,864
Due to subsidiaries	30,801,410	31,067,160
Due to fellow subsidiaries	10,100	358,528
Interest-bearing bank borrowings	4,980,000	4,980,000
Receipts on accounts	285,000	-
	<u>96,122,125</u>	<u>45,416,552</u>
NET CURRENT ASSETS	<u>9,482,184</u>	<u>24,759,111</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>341,233,623</u>	<u>274,302,376</u>



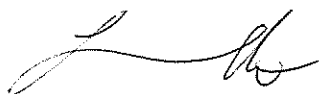
ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

	2017 HK\$	2016 HK\$
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	19,330,000	24,310,000
Receipts on accounts	-	860,000
	<u>19,330,000</u>	<u>25,170,000</u>
Net assets	<u>321,903,623</u>	<u>249,132,376</u>
EQUITY		
Share capital	25,075,000	25,075,000
Reserves (note)	<u>296,828,623</u>	<u>224,057,376</u>
	<u>321,903,623</u>	<u>249,132,376</u>



.....  
Ho, Lawrence Yau Lung  
Director



.....  
Tsui Che Yin, Frank  
Director

ABERDEEN RESTAURANT ENTERPRISES LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve HK\$	Retained profits HK\$	Total HK\$
At 1 January 2016	15,459,703	208,568,565	224,028,268
Profit for the year and total comprehensive income for the year	<u>-</u>	<u>29,108</u>	<u>29,108</u>
At 31 December 2016 and 1 January 2017	15,459,703	208,597,673	224,057,376
Profit for the year and total comprehensive income for the year	<u>-</u>	<u>72,771,247</u>	<u>72,771,247</u>
At 31 December 2017	<u>15,459,703</u>	<u>281,368,920</u>	<u>296,828,623</u>

29. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

