NEW CITY DEVELOPMENT GROUP LIMITED
新城市建設發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

ANNUAL REPORT 2017

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Han Junran (Chairman)
Mr. Luo Min
Mr. Seto Man Fai

Independent Non-Executive Directors

Mr. Chan Yiu Tung, Anthony
Mr. Zheng Qing
Dr. Ouyang Qingru
Mr. Zhang Jing
Mr. Leung Kwai Wah Alex

COMPANY SECRETARY

Ms. Chan Yim Kum

REGISTERED OFFICE

P.O. Box 31119 Grand Pavilion, Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit D, 17/F, MG Tower,
133 Hoi Bun Road,
Kwun Tong,
Kowloon,
Hong Kong

AUDITORS

World Link CPA Limited
5/F., Far East Consortium Bldg.,
121 Des Voeux Road,
Central,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank
China Citic Bank International Limited

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
North Point, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Han Junran
Mr. Fu Yiu Kwong

Financial Highlights

	2017 **HK$'000**	2016 HK$'000	Change
Revenue	**39,076**	34,982	11.70%
Profit from operations	**40,055**	15,650	155.94%
Profit for the year	**23,010**	1,219	1,787.61%
Total equity	**663,737**	603,693	9.95%
Total assets	**1,104,147**	980,331	12.63%
Total liabilities	**(440,410)**	(376,638)	16.93%
Basic earnings per share (HK cents)	**0.70**	0.04	1,650%

Chairman's Statement

BUSINESS AND OPERATION

REVIEW BUSINESS REVIEW

The Group recorded a turnover of approximately HK$39,076,000 and recorded a profit after tax of approximately HK$23,010,000 for the year.

Major business arrangements

Continuing Connected Transactions

On 31 May 2016, new tenancy agreements (the "New Tenancy Agreements") were respectively entered into (i) between New Rank Services Limited (a wholly-owned subsidiary of the Company) as tenant and Winrich Investments Limited as landlord for leasing of the office premises ; (ii) between New Rank Services Limited as tenant and Goldrich Investments Limited as landlord for leasing of the office premises; and (iii) between New Rank Services Limited as tenant and Jiacheng Jiaxin International Property Management (Hong Kong) Limited as landlord for leasing of the staff quarter and car parking space. The New Tenancy Agreements are for a term of two years commencing from 1 June 2016. All of Winrich Investments Limited, Goldrich Investments Limited and Jiacheng Jiaxin International Property Management (Hong Kong) Limited are companies indirectly wholly-owned by an associate of a connected person of the Company, and therefore the transactions contemplated under the New Tenancy Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

OUTLOOK

The Group's wholly-owned subsidiary, Guangdong Changliu Investment Company Limited ("Changliu"), currently is the Group's main operating unit. Due to the growth in property market in China and the appreciation of Renminbi exchange rate, the Group's rental and related management service income from Changliu increased. Leasing will continue to be the main commercial activity of Changliu. However, the Group will endeavor to develop feasible measures for enhancing the rental value of Changliu's properties. The Company will also invest in property development in Zhuhai and other properties in the PRC to enhance the Group's asset and income base.

With regard to Luoyang Properties, on 26 June 2017, the Group received a 閒置土地調查通知書 (the "Notice of Investigation of Idle Land") from 國土局, pursuant to which, the Group is required to report the construction progress of the Luoyang Properties to 國土局. On 26 July 2017, the Group replied and explained that the delay of the construction of the Luoyang Properties was due to the changing of land policy by the Luoyang government. On 5 December 2017, the Group submitted a construction plan of the Luoyang Properties to 洛陽市城鄉規劃局 ("規劃局"). After reviewed by 規劃局, the Group was instructed to modify certain aspects of the construction plan and prepare required documents for resubmission to 規劃局 for further approval before commencement of the construction work.

Currently, the Luoyang Properties is still in the planning and design stage. The Group expects to have the construction work of the Properties commenced in December 2018. The Properties development time is estimated to be three and a half years. In 2018, the work of the Properties is mainly planning, designing, and starting the various procedures.

Up to now, the construction plan of the Luoyang Properties was still under modification and yet been resubmitted to 規劃局.

Chairman's Statement

The Company will focus on cultural and innovative projects in the coming year. We realize that each property project has its own characteristics as residents who are in different living places, of different ages and from different social groups have distinct hobbies and habits, which creates unique cultural features in various projects. Therefore, in respect of the Company's development and taking into account our existing resources and property projects under progress in different regions, we, on one hand, will continue to participate in the property development market, and on the other hand, will integrate cultural features in our property development projects.

We hope our cultural projects, such as providing children's creativity trainings and providing venues for microfilms-shooting, will gear towards the core values of our business, in different aspects from education, health to various life facilities as well as products, which enable us not only to provide commercial or residential zones as a traditional developer, but also to enhance the brand value of the Company.

We will allocate resource in development of a cultural property project which combines cultural industry and sales of cultural products. We will undertake detailed planning and implement the expansion plan by phases, so as to maintain a stable cash flow of the Group. In addition, in order to improve the cultural value of the modified renovation plan, the Group is carrying out the design work of our plan and, on the other hand, the Group also allocates resource in the design of cultural products for future sales so as to provide a new source of income and reduce our reliance on the rental income from Changliu.

We expect that the rental income from major cities in China will rise steadily in the coming year and we are optimistic about the company's prospects. The management will continue to strive for higher returns for the Group.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the management team and staff for their dedication and contribution to the Group.

Han Junran
Chairman

Management Discussion and Analysis

FINANCIAL REVIEW

Result

For the year under review, the Group reported a turnover which represented the rental income and management fee income of approximately HK$39,076,000 (2016: HK$34,982,000). The Group's net profit for the year was approximately HK$23,010,000 (2016: HK$1,219,000). The basic earnings per share for the year was approximately 0.70 HK cents (2016: 0.04 HK cents). Administrative expenses was approximately HK$27,594,000 (2016: HK$24,973,000). Finance costs was approximately HK$13,952,000 (2016: HK$12,721,000).

Liquidity, Financial Resources and Funding Requirements

As at 31 December 2017, the Group had obligations under hire purchase contracts of approximately Nil (2016: HK$101,000).

As at 31 December 2017, the Group's total assets was approximately HK$1,104,147,000 (2016: HK$980,331,000) and total liabilities were of approximately HK$440,410,000 (2016: HK$376,638,000). As at 31 December 2017, the cash and bank balances was approximately HK$35,684,000 (2016: HK$40,045,000) and the current ratio (current assets/current liabilities) was 2.23 as at 31 December 2017 (2016: 3.65).

Pledge of Assets

As at 31 December 2017, the Group's investment properties located in Guangzhou (note 19a) were pledged to secure bank borrowings, details of which are set out in note 28 to the consolidated financial statement. And the finance lease payable was secured by the leased motor vehicle with a carrying amount of approximately Nil (2016: HK$92,000).

Gearing Ratio

The gearing ratio (net debt/capital and net debt) was 27% as at 31 December 2017 (2016: 24%).

Capital Structure

There is no change in the capital structure of the Company.

Exchange Risks

The majority of the Group's operations are located in the People's Republic of China (the "PRC") and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assessing exchange risks.

Management Discussion and Analysis

Dividends

The directors did not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

Prospect

The management of the Company continues to allocate resources mainly in city development and to identify business opportunities which are in line with its long established development strategy. Looking forward, the Group will adhere to its cultural industry development plan implemented in the current year and actively develop the real estate development business and explore profitable projects in the design culture field, so as to enhance the Company's financial performance and generate optimal returns for its shareholders.

Employees

As at 31 December 2017, the Group has employed about 50 (2016: 51) employees in Hong Kong and PRC. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

Management Discussion and Analysis

Significant Investments and Material Acquisitions

The Group did not have any significant investments or acquisitions during the year ended 31 December 2017.

Contingent Liabilities

Details of the contingent liabilities are set out in note 33 to the consolidated financial statements.

Commitments

Details of the commitments are set out in notes 35 and 36 to the consolidated financial statements.

ENVIRONMENTAL PERFORMANCE

Details of environmental performance are set out in the Environmental, Social and Governance Report on pages 19 to 26.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to complying with the requirements of the Personal Data (Privacy) Ordinance, and ordinance relating to disability, sex, and family status, as well as the Employment Ordinance, the Minimum Wage Ordinance and well-being of its employees. The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and guidelines issued by the Office of the Privacy Commissioner for Personal Data, with a view to protecting the privacy of its employees and customers, etc. The Group has also complied with the Stamp Duty Ordinance, Rating Ordinance and Inland Revenue Ordinance in respect of renting of premises during the year ended 31 December 2017. During the year ended 31 December 2017, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and believes that good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company and (iv) safeguard the interests of the Shareholders and the Company as a whole.

The Company has complied with all the code provisions ("Code Provisions") as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), save for the deviations listed below:

The Chairman of the Company is also the Chief Executive Officer of the Company, which deviates from Code Provision A.2.1 which provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. As the current nature of the Group's business is not complicated, the Board considers that the current structure is sufficient for monitoring and controlling the operation of the Group. The Company will review the structure from time to time and will make necessary arrangements to observe the provisions of the Listing Rules whenever necessary.

According to the Articles of Association of the Company, the Non-Executive Directors of the Company are not appointed for specific terms. Thus, they are deviated from Code Provision A.4.1 which stipulates that Non-Executive Directors should be appointed for a specific term, subject to re-election and Code Provision A.4.2 which stipulates that all Directors appointed to fill a casual vacancy shall hold office only until the next following general meeting and every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, in view of the fact that Non-Executive Directors are subject to retirement by rotation as stipulated in the Company's Articles of Association, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code Provisions. In respect of Code Provision A.6.7 of the CG Code, three Independent Non-Executive Directors did not attend the annual general meeting of the Company held on 27 June 2017. The Company will review its Articles of Association from time to time and will make necessary amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

According to Article 87(1) of the Articles of Association, since the Chairman of the Board, whilst holding such office, is not subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year, Code Provision A.4.2 is deviated. The Chairman plays an essential role in the growth and development of the Group. At presence, the Chairman's continuing presence in the Board is important to assure sustainable development of the Group. Given the importance of the Chairman's role, the Board considers that the relevant article in the Articles of Association has no material impact on the operation of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of the Directors, the Directors have complied with the Model Code throughout the year ended 31 December 2017.

Corporate Governance Report

PUBLICATION OF THE ANNUAL REPORT

This Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkex.com. hk) and the Company (www.newcitygroup.com.hk). The 2017 Annual Report will be despatched to our Shareholders on or before 30 April 2018 and will be available at the websites of the Stock Exchange and the Company.

THE BOARD OF DIRECTORS

Composition and role of the Board

The Board is responsible for the overall strategic development and business operation of the Group and also monitors the financial performance and control on business operation. The Board will from time to time review the Company's governance practices and will provide complete and sufficient information to its members so as to ensure effective performance of their responsibilities. Currently, the Board is comprised of three Executive Directors and five Independent Non-Executive Directors, which includes:

Executive Directors	:	Mr. Han Junran (Chairman) Mr. Luo Min Mr. Seto Man Fai
Independent Non-Executive Directors	:	Mr. Chan Yiu Tung, Anthony Mr. Zheng Qing Dr. Ouyang Qingru Mr. Zhang Jing Mr. Leung Kwai Wah Alex

Biographical details (including age, gender and length of service) of the Board members are set out on pages 27 to 28 of this annual report.

Corporate Governance Report

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three Independent Non-Executive Directors, together with the requirements of Rule 3.10(2) of the Listing Rules stipulating that at least one of the Independent Non-Executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. The Board considers that each Independent Non-Executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

The Company has received from each Independent Non-Executive Director an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the Executive Directors, senior management and certain specific responsibilities to the Board Committees.

DIRECTORS' TRAINING

According to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a Director of a listed company.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2017 to the Company.

The Company has also continuously updated the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

The individual training record of each Director received for the year ended 31 December 2017 is summarised below: –

Names of Directors	Attending or participating in seminars/conferences/ corporate events or visits/ reading relevant to the business/Directors' duties
Executive Directors:	
Mr. Han Junran *(Chairman)*	✓
Mr. Luo Min	✓
Mr. Seto Man Fai	✓
Independent Non-Executive Directors:	
Mr. Chan Yiu Tung, Anthony	✓
Mr. Zheng Qing	✓
Dr. Ouyang Qingru	✓
Mr. Zhang Jing	✓
Mr. Leung Kwai Wah Alex	✓

Corporate Governance Report

During the year ended 31 December 2017, 3 full Board meetings were held by the Company and complies with the Code Provision A.1.1. The 2017 annual general meeting was held by the Company on 27 June 2017. The Company has already established a profound regime to ensure effective communication among the Directors.

The attendance record of each Director at the Board meetings and the 2017 annual general meeting is as follows:

Names of Directors	Attendance/Number of Board meetings	Attendance of 2017 annual general meeting
Mr. Han Junran	3/3	✓
Mr. Fu Yiu Kwong (resigned on 27 June 2017)	1/2	N/A
Mr. Luo Min	3/3	✓
Mr. Seto Man Fai	2/2	✓
Mr. Chan Yiu Tung, Anthony	2/3	
Mr. Zheng Qing	0/3	
Dr. Ouyang Qingru	0/3	
Mr. Zhang Jing	2/3	✓
Mr. Leung Kwai Wah Alex	2/3	✓

Chairman and Chief Executive Officer

According to Code Provision A.2.1, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. During the year ended 31 December 2017, the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Junran. As the current nature of the Group's business is not complicated, the Board believes the current management structure is sufficient for monitoring and controlling the operation of the Group. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals with diversity of perspectives in accordance with Code Provision A.3. The Board currently comprises three Executive Directors and five Independent Non-Executive Directors and therefore has a strong independence element in its composition. The Company will review its structure from time to time and make relevant arrangements to observe the provisions of the Listing Rules whenever necessary.

Appointment, re-election and removal of the Directors

The Non-Executive Directors of the Company are not appointed for specific terms, thus deviates from Code Provision A.4.1. In addition, the Chairman of the Board and/or the managing Directors of the Company are not subject to retirement by rotation, which also deviates from Code Provision A.4.2. However, in view of the fact that Non-Executive Directors are subject to retirement by rotation in accordance with the Articles of Association of the Company, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code Provisions. Nevertheless, the Company will review its relevant Articles of Association and will propose any amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

Mr. Chan Yiu Tung Anthony, being an Independent Non-Executive Director, has served the Company for more than nine years, and will retire and being eligible, has offered himself for re-election at 2018 annual general meeting of the Company (the "AGM"). The Nomination Committee considered that his long service will not affect his exercise of independent judgment and was satisfied that he has the required integrity and experience to continue fulfilling the role of an Independent Non-Executive Director. Taking into consideration the above, the Board is of the view that Mr. Chan Yiu Tung Anthony remains independent notwithstanding the length of his service and should be re-elected at the forthcoming AGM. In accordance with the Code, the re-election of Mr. Chan Yiu Tung, Anthony will be subject to a separate resolution to be approved at the forthcoming AGM.

BOARD COMMITTEES

The Board has established various committees under the Board, namely Audit Committee, Remuneration Committee and Nomination Committee (collectively, "Board Committees"), to oversee different aspects of the Group's affairs and to assist in the execution of the Board's responsibilities.

AUDIT COMMITTEE

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Stock Exchange. The Audit Committee shall consist members of Non-Executive Directors of the Company. The Audit Committee currently comprises three Independent Non-Executive Directors, namely Mr. Leung Kwai Wah Alex (as Chairman), Mr. Chan Yiu Tung, Anthony and Mr. Zheng Qing. The quorum of meetings of the Audit Committee shall be any two members. The terms of reference of the Audit Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Audit Committee are aligned with the Code Provisions set out in the CG Code.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal of such auditor; reviewing the interim and annual reports and financial statements of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and internal control procedures.

Corporate Governance Report

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with reporting and accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2017, the Audit Committee held 2 meetings. Each committee meeting has been supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

Names of members	Attendance/Number of meetings
Mr. Leung Kwai Wah Alex *(Chairman)*	2/2
Mr. Chan Yiu Tung, Anthony	2/2
Mr. Zheng Qing	0/2

During the year under review, the Audit Committee had performed the following work:

– reviewed the annual results for the year ended 31 December 2016 and the interim results for the six months ended 30 June 2017;

– discussed with the management of the Company over the completeness, fairness and adequacy of reporting and accounting standards and policies of the Group in the preparation of the 2017 interim and annual financial statements;

– reviewed and discussed with the external auditor over the financial reporting of the Company;

– recommended to the Board, for the approval by Shareholders, of the re-appointment of the auditor; and

– reviewed the internal control procedures of the Group.

The Board also delegated certain corporate governance functions to the Audit Committee, including the review and monitoring of (a) the Group's policies and practices on corporate governance and make recommendations to the Board; (b) the training and continuous professional development of Directors and senior management; (c) the Group's policies and practices on compliance with legal and regulatory requirements; (d) the code of conduct of the Group applicable to employees and Directors; and (e) the Group's compliance with the Code and disclosure in the Corporate Governance Report.

REMUNERATION COMMITTEE

The Company formulated written terms of reference for the Remuneration Committee in accordance with requirements of the Stock Exchange. The Remuneration Committee shall comprise at least three members with majority of Independent Non-Executive Directors, and an Independent Non-Executive Director should take up the role of Chairman of the Remuneration Committee. The Remuneration Committee currently comprises two Independent Non-Executive Directors, namely, Mr. Chan Yiu Tung, Anthony (as Chairman), and Mr. Leung Kwai Wah Alex and one Executive Director, Mr. Han Junran. The quorum of meetings of Remuneration Committee shall be any two members. The terms of reference of the Remuneration Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Remuneration Committee are aligned with the Code Provisions set out in the CG Code.

The functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing a remuneration policy, to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives, to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, and to make recommendations to the Board on the remuneration of Independent Non-Executive Directors.

During the year ended 31 December 2017, the Remuneration Committee held 1 meeting for reviewing the remuneration package of the Directors of the Company and approving the proposed remuneration of a senior management.

Names of members	**Attendance/Number of meetings**
Mr. Chan Yiu Tung, Anthony *(Chairman)*	1/1
Mr. Han Junran	1/1
Mr. Leung Kwai Wah Alex	1/1

The emolument payable to Directors and senior management will depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions. Details of the remuneration of the Directors and senior management are set out in note 14 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 1 April 2012. Prior to the establishment of the Nomination Committee, its role and functions were performed by the Board. The Chairman from time to time reviewed the composition of the Board with particular regard to the number and the independence of the Independent Non-Executive Directors. The Board also reviewed and determined the suitability and terms for re-appointment of Directors.

The Company formulated written terms of reference for the Nomination Committee in accordance with requirements of the Stock Exchange and amended the same on 23 August 2013. The Nomination Committee shall comprise at least three members with a majority of Independent Non-Executive Directors, and the Chairman of the Board or an Independent Non-Executive Director should take up the role of Chairman of the Nomination Committee. The Nomination Committee currently consists of one Executive Director, Mr. Han Junran (as Chairman), and three Independent Non-Executive Directors, namely, Mr. Leung Kwai Wah Alex and Mr. Chan Yiu Tung, Anthony and Mr. Zheng Qing. The quorum of meetings of the Nomination Committee shall be any two members. The terms of reference of the Nomination Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Nomination Committee are aligned with the Code Provisions set out in the CG Code.

The functions of the Nomination Committee are to review and monitor the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Group's strategy; to identify qualified individuals to become members of the Board; to assess the independence of Independent Non-Executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive.

Corporate Governance Report

The Company adopted a board diversity policy in August 2013 to enhance the quality of its performance in accordance with Code Provision A.5.6. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All board appointments will be based on meritocracy, and candidates will be selected based on a range of diversity perspectives, including gender, age, cultural background and ethnicity, educational background, professional experience, skills, knowledge and length of service.

The Nomination Committee will review the policy as appropriate to ensure its effectiveness and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

During the year ended 31 December 2017, the Nomination Committee reviewed the composition of the Board and the retirement and re-election of Directors. The Committee held 1 meeting during the year and the attendance records of the members at the meetings are set out below:

Names of members	Attendance/Number of meetings
Mr. Han Junran *(Chairman)*	1/1
Mr. Chan Yiu Tung, Anthony	1/1
Mr. Leung Kwai Wah Alex	1/1
Mr. Zheng Qing	0/1

SECURITIES TRANSACTIONS BY DIRECTOR

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors of the Company. All the members of the Board have confirmed, following the specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2017. The Model Code also applies to other specified senior management of the Group.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company on their reporting responsibilities for the Group's consolidated financial statements for the year ended 31 December 2017 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors, World Link CPA Limited and its affiliates in respect of audit and non-audit services for the year ended 31 December 2017 are as follows:

Nature of services	Amount (HK$'000)
Audit services	500
Non-audit services	
– Services in relation to review internal control and risk assessment	70
– Services in relation to environmental, social and governance reporting	70
– Provision of tax compliance services	30

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the consolidated financial position of the Group and of the consolidated financial performance and consolidated cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis.

The Directors acknowledge their responsibility to prepare the consolidated financial statements as set out on pages 43 to 115 of this annual report. The statement of the external auditors about their reporting responsibilities on the consolidated financial statements is set out in the paragraph headed "Independent Auditors' Report" on pages 36 to 42 of this annual report.

INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective internal control system to safeguard the Group' assets against unauthorised use or disposition, and to protect the interests of Shareholders of the Company.

During the year ended 31 December 2017, the Board conducted an annual review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management.

COMPANY SECRETARY

During the year ended 31 December 2017, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its Shareholders are achieved through various means including the convening of general meetings, the dispatch of annual reports, interim reports and circulars. The Chairman of the Board also proposes separate resolution for each substantive issue including re-election of Directors.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Articles 58 of the Articles of Association, an extraordinary general meeting ("EGM") may be convened by the Board on a written requisition of any one or more Shareholders of the Company holding not less than 10% of the paid up capital of the Company carrying the right of voting at general meeting of the Company. The EGM shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) of the Company.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong for the attention of the Company Secretary.

Articles of Association

There was no change to the Articles of Association to the Company during the year ended 31 December 2017.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of interim and annual reports, the publishing and posting of notices, announcements and circulars on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.newcitygroup.com.hk) in a timely manner in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

Environmental, Social and Governance Report

1 BACKGROUND

The Group is committed to ethical corporate citizenship and to promoting sustainability in all of its activities. The Group demonstrates these commitments through transparent and responsible management of our environment and social values. These values respect and are informed by those of all of our stakeholders, including the communities with which we interact. The requirements listed below apply to the Group's operations, every subsidiary, each manager and employee, as well as any member performing work on behalf of the Group.

This ESG Report covers the Group's overall performance in two subject areas, namely, Environmental and Social aspects of the business operations in Hong Kong from 1 January 2017 to 31 December 2017 (the "year" or "2017"), unless otherwise stated.

2 STAKEHOLDER ENGAGEMENT

The Group understands the importance of developing long-term relationships and constant dialogues with various stakeholders. The management seek to balance the views and interests of these various constituencies through constructive conversation.

i) Shareholders/Investors

In order to further strengthen communication with the shareholders, during each shareholders' meeting, the Group would communicate with its shareholders about the issues that should be communicated and ensure timely dissemination of relevant information to shareholders at all times. Shareholders are also encouraged to raise any question freely to the Company during each meeting.

ii) Customers

Customer feedback is invaluable as the Group operates in extremely competitive markets. There are a number of communication channels to solicit customer comments and recommendations such as our website and e-mail.

iii) Government

Along with different government laws, rules and regulations between Hong Kong and the PRC, the Group makes tremendous effort to ensure that it is complied with the relevant laws and regulations.

Environmental, Social and Governance Report

The table underneath showed aspects on the ESG Guide to be assessed and those ESG issues were determined to be material to the Group.

ESG Aspects as set forth in ESG Guide	Material ESG issues for the Group
(A) Environmental	
A1 Emissions	Electricity consumption
A2 Use of Resources	Use of energy and paper
A3 Environment and Natural Resources	Air pollution
(B) Social	
B1 Employment	Labour practices
B2 Health and Safety	Workplace health and safety
B3 Development and Training	Employee development and training
B4 Labour Standards	Anti-child and forced labour
B5 Supply Chain Management	Supply chain management
B6 Product Responsibility	Product responsibility
B7 Anti-corruption	Anti-corruption, fraud prevention and anti-money laundering
B8 Community Investment	Community programs, employee volunteering and donation

A Environmental

The Group recognises the importance of good environmental stewardship and a healthy environment. Therefore, the Group is dedicated to maintaining its energy consumption and emission at low level in every single step. The management strived to enhance operational efficiency and carried out measures to reduce the impact on the environment in order to protect the earth's resources.

The Group does not involve in production of related air, water, land pollutions and hazardous waste. Nonetheless, the Group has actively implemented eco-friendly measures to reduce carbon footprint in our business operations. For instance, board meetings/management meetings through telephone conference have significantly been adopted to minimize the cost of transportation and to reduce carbon emission.

Type of emission sources that the Group involved during the year was mainly electricity and paper. The Group's business did not involve in production-related air, water, and land pollutions which are regulated under national laws and regulations. There were no water consumption and packaging materials involved in the Group's business operation.

Environmental, Social and Governance Report

A1.1 Emissions Data from Gaseous Fuel Consumption

a) Emissions data from gaseous fuel consumption for Towngas/liquefied petroleum gas:

Key performance indicator ("KPI")		
	2017	**Unit**
NOx	4,846,526	kg/million MJ of gas
SOx	24,233	kg/million MJ of gas
Total	**4,870,579**	**kg/million MJ of gas**

b) The Company owned serval motor vehicles during the year, the emissions data in relation to motor vehicles are set out below:

KPI		
	2017	**Unit**
NOx	2,959.7	g
SOx	348.2	g
PM	279.2	g
Total	**3,587.1**	**g**

A1.2 Greenhouse Gas Emission

KPI		
	2017	**Unit**
Scope 1: Direct Emission	7,950	kg
Scope 2: Indirect Emission	20,808	kg
Scope 3: Other indirect Emission	1,707	kg
Total	**30,455**	**kg**

During the year, there was 30,455 kg of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation.

A1.3 Non-hazardous Waste

The Group generated no hazardous waste in its operation. Non-hazardous waste from the Group's operation was mainly office paper but the management of the Group believed that the impact of non-hazardous waste arose from the waste paper was insignificant.

Environmental, Social and Governance Report

A2.1 Use of resource

The Group is committed to protecting the environment by enhancing its operational efficiency and energy efficiency to reduce energy, paper and waste by following initiatives:

i) Paper
- Using e-mail for internal communication to minimize the printing needs
- Using recycled paper and double-sided printing
- Using E-flyer to allow printing on demand basis

ii) Electricity
- Encouraging staff members to turn off lights and air-conditioners when not needed, especially after office hours

iii) Computer
- Undertaking regular maintenance to ensure efficient operation and to extend the life-cycle of the computers

iv) Stationery and Furniture
- Reusing stationery, furniture and equipment among offices instead of buying new one or disposing of such materials

v) Waste
- Encouraging recycling plastic and paper

A3 Environmental and Natural Resources

The Group believes that corporate development should not come at the expense of the environment. Therefore, the Group adopted environmental friendly practices in various aspects and company events. For example, the Group uses air conditioning arrangements in the office to reduce unnecessary energy wastage; use recycled paper and double-sided printing. The Company estimates that around 20% of the paper consumption was saved by adoption of double-sided printing in the principal place of business in the PRC and in Hong Kong.

The Group's air pollution is mainly produced by photocopiers, stale air drawn in from outside through poorly located fresh air inlets and bacteria that enter the office.

In order to improve the indoor air quality, the Group had implemented a range of air pollution emission measures as follows:

- Ensure air inlets are away from any source of pollutants and sufficient ventilation systems;
- Clean all air units regularly (e.g. air inlets, air outlets and filters); and
- Perform regular maintenance on carpet and furniture upholstery.

There was no non-compliance case noted in relation to environmental laws and regulations for the year.

Environmental, Social and Governance Report

B Social

Being a responsible enterprise and employer, the Group are committed to consistently looking for ways to meet the corporate social responsibilities. The Group focuses on its staff, environment and community as well as its business partners.

B1 Employment and Labour Practices

The Group offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retain talents. The Group possesses a Remuneration Committee, which regularly reviews its remuneration policy. The Remuneration Committee ensures packages offered by the Group are appealing to employees and in line with the market trend. The Group had a total number of 50 employees as of 31 December 2017, in which 64% was Chinese full-time staff.

a) Employee's Age and Gender Distribution

	2017	
Age Group	**Male**	**Female**
0-15	0%	0%
16-18	0%	0%
19-30	4%	4%
31-45	16%	20%
46-60	28%	20%
= 61/>61	8%	0%
Total	**56%**	**44%**

Employees are entitled to discretionary cash bonus and retirement benefit scheme. Additional fringe benefits include office insurance, employee compensation insurance, directors' and officers' liability insurance. Various types of paid leave are also offered on top of statutory requirement including annual leave, sick leave, maternity leave, paternity leave, compensation leave, compassionate leave and wedding leave. Employees working overtime are entitled to overtime allowance and compensation by time off. The Group may also at its sole discretion, to grant share options to employees as a long-term incentive aiming to motivate employees pursuing Group's goal and objectives. Employees including directors can subscribe shares of the Company based on their performance and contribution to the Group.

The Group committed to ensure safe and healthy working environment for its employees and to inspire and strengthens workforce regardless of their age, gender and ethnical backgrounds. The annual turnover rate was 2% during the year.

Environmental, Social and Governance Report

b) Turnover Rate by Age Group and Gender

	2017	
Age Group	**Male**	**Female**
0-15	0%	0%
16-18	0%	0%
19-30	0%	0%
31-45	2%	0%
46-60	0%	0%
= 61/>61	0%	0%
Total	**2%**	**0%**

	2017	
By gender	**Male**	**Female**
Resigned staff	100%	0%

The Group will continue to provide a well-structured and caring environment to its employees to raise their sense of belonging and work efficiency at the Group.

B2 Employee Health and Safety

The Group strives to promote safety awareness, improve occupational environment and reduce occupational risks. The Group continuously promotes safety awareness among employees and committed to providing a healthy and safety working environment for its employees. The Group has dedicated adequate resources and effort to uphold and improve the Group's safety management measures in order to reduce the risks relating to labour safety, such as: ensuring a healthy and safety workplace and compliance with all relevant workplace health and safety laws, and maintaining various insurance policies for employees' compensation and liability.

During the year, the Group had no non-compliance case regarding violation of relevant laws and regulations on occupational health and safety.

a) Occupational Health and Safety Data

	2017		2016	
Health and Safety	**Male**	**Female**	**Male**	**Female**
Number of work-related fatalities	0%	0%	0%	0%
Lost days due to work injury	0%	0%	0%	0%

Environmental, Social and Governance Report

B3 Development and Training

The package offered by the Group in relation to development and training includes training covering topics of business operations, policy and procedures of the Group, statutory and regulatory obligations of being a director. Ongoing trainings, briefings and seminars would also be provided to staff after the induction to refresh their professional knowledge and skills.

In addition to above, the Group also encourages and supports employees' personal development through attending external trainings and special early leave would be granted for training purpose. Thus, various types of suitable seminars or training courses would be recommended to employees via email and they can choose registered either personally or through the Company.

The Group also provides communication channel to its employees. Notices, e-mails, team briefings serve as the major channels of communication among the management and frontline staff. Performance appraisals and annual surveys also provided platforms for the management and frontline staff to evaluate their performances and voice out their expectations to the Group's future development. During the year, the Group organized a Winter Solstice Dinner to appraise their past contribution and raise employees' sense of belongings.

B4 Labour Standard

The Group believes in nurturing and developing top talents regardless of race, gender, age, religious belief, pregnancy, marital status, family status or disability. This measure ensures all employees and job applicants enjoy equal opportunities and fair treatment.

No child or forced labour was employed in the Group's operations during the year that was compliance with the Employment Ordinance, Chapter 57 of the Laws of Hong Kong in terms of employment management.

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, race, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable law. The Group also appreciates the importance of cultural diversity in the development of the Group, and employs employees in a wide range of ages, genders, and ethnicities.

In particular, the Group adopted a Board diversity function under which the Board composition includes members from with different skills, industry knowledge and experience, education, background and other qualities without discrimination.

During the year, the Group had no non-compliance case regarding violation of relevant child labour and forced labour laws.

Environmental, Social and Governance Report

B5 Supply Chain Management

The Group has policy in place on obtaining quotations from more than one supplier for procurement. The selection of suppliers or service providers would be based on meeting specifications and standards, product and service quality as well as service support.

B6 Product Responsibility

As stated in the Group's Employee Manual, insider information is prohibited to disclose to third party, and so consumer data and privacy matters relating to services are protected. The Group's business operation did not involve in any product or service related complaints.

During the year, the Group had no non-compliance case regarding violations of relevant laws and regulations on product responsibility and data privacy during the year.

B7 Anti-corruption

During the year, the management of the Group did not find any case of bribery or fraud. Through the controlled environment developed by all staff throughout the years, the Group believes that the risk of the occurrence of fraud behavior has been minimized. The Group will continue to monitor the related risks so as to maximize the values for the shareholders and other related parties.

There was no non-compliance case noted in relation to corruption related laws and regulations during the year.

B8 Community Investment

To maintain a high standard of corporate governance, the Group acknowledged the importance of enhancing its transparency to the community. The community is regularly informed of updated news and directions of the Group through circulars, announcements and annual reports posted on the Company's website. The Group is currently planning its direction on focus area of community engagement and types of resources to be contributed.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Han Junran, aged 61, obtained a professional law diploma from China Politics and Laws University in 1988. In 2001, Mr. Han also obtained a master's degree in enterprise management from Capital University of Economics and Business. Mr. Han has worked for Beijing Urban Construction Group Company Limited, the office of The Standing Committee of the National People's Congress of Beijing City and the office of the Beijing Municipal Government since 1983. Mr. Han joined the Group in December 1999 as the Group's general manager. Mr. Han is currently responsible for the Group's overall strategic development and management. Mr. Han was appointed as an Executive Director of the Company in December 1999 and the Chairman of the Company in December 2002.

Mr. Luo Min, aged 51, is an engineer and has extensive experience in property development, investments and management. Mr. Luo was appointed as a Non-Executive Director of the Company in May 2008. On 1 March 2012, Mr. Luo has been re-designated from a Non-Executive Director to an Executive Director.

Mr. Seto Man Fai, aged 50, graduated from the Chinese University of Hong Kong with a bachelor's degree in accounting. He is a member of the American Institute of Certified Public Accountants. He is also a member of the Institute of Chartered Accountants in England and Wales. Mr. Seto has extensive experiences in accounting, auditing and corporate finance. Mr. Seto was appointed as an Independent Non-Executive Director of the Company in October 2009. On 3 June 2016, Mr. Seto has been re-designated from a Independent Non-Executive Director to an Executive Director.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Tung, Anthony, aged 59, graduated from University of Toronto in 1982. Mr. Chan has over 20 years experience in the construction and property investment field and is currently the managing Director of Chan Shum Kee Sam Lee Construction Company Limited. Mr. Chan is currently the member of various organisations including Lions Club of Hong Kong West (President during the years 1996/97 and 2001/02), Hong Kong Registered Contractors Association (President), The Hong Kong Construction Association Ltd (Council Member), H.K. General Building Contractors Association Ltd (President for 2011-2013), Kwong Yuet Tong Hong Kong (Council Member), Association of Hong Kong Nanjing Fellows Ltd (Director), The Chinese General Chamber of Commerce (Shamshuipo) (Council Member), Commercial & Industrial Committee of DAB (Council Member), Guangzhou Overseas Friendship-Liaison Association (Council Member), Yan Oi Tong (Directors for the years 2006 to 2009 and 2011 to 2014), Mr. Chan was appointed as an Independent Non-Executive Director of the Company in August 2002.

Directors' Profile

Mr. Zheng Qing, aged 52, has extensive experience in property development and management. Mr. Zheng is a Director of various companies in the fields of property development management and securities investment in PRC. Mr. Zheng was appointed as an Independent Non-Executive Director of the Company in September 2004.

Dr. Ouyang Qingru, aged 51, graduated from the Shanghai Second Medical University, is the engineer of the Anesthesiology division of a leading hospital. Working in the Hospital, Dr. Ouyang is familiar with clinical anesthesia and medical equipment application and has immersed experience in the hospital management. Dr. Ouyang was appointed as an Independent Non-Executive Director of the Company in December 2014.

Mr. Leung Kwai Wah Alex, aged 64, is currently a mentor of mentorship program of two universities in Hong Kong. Mr. Leung has 30 years of experiences in banking and financing field. Mr. Leung is a fellow member of Governance Institute of Australia, Hong Kong Institute of Directors, Institute of Chartered Secretaries and Administrators and Hong Kong Securities and Investment Institute. Mr. Leung is also a member of Hong Kong Treasury Markets Association. Mr. Leung graduated from Hong Kong Baptist College with a business administration major in 1979 and obtained a master's degree in business administration from Illinois State University in USA in 1981. Mr. Leung was appointed as an Independent Non-Executive Director of the Company in June 2016.

Mr. Zhang Jing, aged 61, is currently a director of private equity investment of Oriental Patron Financial Group Limited in Hong Kong. Mr. Zhang has over 22 years of experiences in corporate management. Mr. Zhang served as the general manager of China Security Limited（中國中安保有限公司）. Prior to this, Mr. Zhang was the deputy general manager of Sichuan Jinguang Group（四川金廣集團）. He also served as the director and deputy general manager of collective economic management department of China Yituo Group（中國一拖集團）and the chief financial officer of First Tractor Company Limited. Mr. Zhang obtained a bachelor's degree in industrial accounting from Henan Radio & Television University and a master's degree in management engineering from Jiangsu University. Mr. Zhang was appointed as an Independent Non-Executive Director of the Company in June 2016.

Report of the Directors

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in property development and investment in the PRC which has not been changed during the year. Details of the principal activities of its subsidiaries are set out in note 1 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 and the Group's financial position at that date are set out in the consolidated financial statements on pages 43 to 115.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2017.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 32 to the consolidated financial statements and the consolidated statement of changes in equity respectively.

BUSINESS REVIEW

The Group recorded a turnover of approximately HK$39,076,000 and recorded a profit after tax of approximately HK$23,010,000 for the year. Details of which, are set out in the paragraph headed "Management Discussion and Analysis" on pages 6 to 8.

SHARE CAPITAL

Details of the movement of share capital of the Company are set out in note 30 to the consolidated financial statement.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of special reserve and share premium less accumulated losses. Under the Companies Law of the Cayman Islands, the special reserve and share premium of the Company is available for paying distributions or dividends to Shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2017, the Company's reserves available for distribution are as follows: (2016: HK$276,983,000)

	HK$'000
Share premium account	457,758
Special reserve	306,450
Accumulated losses	(464,037)
	300,171

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Han Junran *(Chairman)*
Mr. Luo Min
Mr. Seto Man Fai

Independent Non-Executive Directors

Mr. Chan Yiu Tung, Anthony
Mr. Zheng Qing
Dr. Ouyang Qingru
Mr. Zhang Jing
Mr. Leung Kwai Wah Alex

In accordance with the Articles of Association, Mr. Luo Min, Mr. Chan Yin Tung Anthony and Dr. Ouyang Qingru shall retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received annual confirmations of independence from each of the Independent Non-Executive Directors of the Company and as at the date of this report still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Mr. Han Junrun, the Chairman and Executive Director, has entered into a service agreement with the Company commencing 16 December 2002 for a period of three years and continuing thereafter until his Directorship is terminated.

Mr. Luo Min, the Executive Director has entered into a service agreement with the Company for a period of one year commencing 1 March 2012 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

Mr. Seto Man Fai, the Executive Director has entered into a service agreement with the Company for a period of one year commencing 3 June 2016 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

The term of Independent Non-Executive Directors is from the date they were last elected to the date of their retirement by rotation in accordance with the Company's Articles of Association.

Apart from the above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity	Nature of interests	Number of underlying shares held	Approximate % of shareholding
Han Junran	Interests of controlled corporation	–	1,886,662,752 [(1)]	56.88

Note:

(1) Junyi Investments Limited (a company wholly-owned by Mr. Han Junran) held 1,886,662,752 Shares, representing 56.88% of the issued share capital. For the purposes of the SFO, both Junyi Investments Limited and Mr. Han Junran were deemed to be interested in 1,886,662,752 Shares.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as the related party transactions and connected transaction disclosed in note 34 to the consolidated financial statements, there were no contract of significance to which the Company, its holding companies and any of its subsidiaries, was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

SHARE OPTION SCHEME

The Company adopted a share option scheme on 14 June 2002 which will remain in force for a period of 10 years from the date of adoption. The share option scheme expired on 14 June 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of it subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouse or children under the age of 18, had any rights to subscribe for the securities of the Company, or exercised any such rights.

MANAGEMENT CONTRACTS

Save as disclosed above, no contract of significance had been entered into between the Company or any of the subsidiaries and the controlling Shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or Chief Executive of the Company, as at 31 December 2017, other than the interests and short positions of the Directors or Chief Executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long position in the shares of the Company

Name	Capacity	Number of Shares held	Approximate % of shareholding
Mr. Han Junran	Interest of controlled corporation	1,886,662,752[1]	56.88
Junyi Investments Limited	Beneficial owner	1,886,662,752[1]	56.88
Haitong International Credit Company Limited	Person having a security interest	400,000,000	12.06
Haitong International New Energy VIII Limited	Person having a security interest	400,000,000[2]	12.06
Haitong International Securities Group Limited	Interest of controlled corporation	400,000,000[2]	12.06
Haitong Securities Co., Ltd.	Interest of controlled corporation	400,000,000[2]	12.06

Notes:

(1) Junyi Investments Limited, a company incorporated with limited liability in the British Virgin Islands, is wholly-owned by Mr. Han Junran who is an Executive Director of the Company.

(2) The security interest of the 400,000,000 Shares is held by Haitong International New Energy VIII Limited, which is a wholly-owned subsidiary of Castle Range Developments Limited, which in turn is a wholly-owned subsidiary of Haitong International (BVI) Limited which in turn is a wholly-owned subsidiary of Haitong International Securities Group Limited, which in turn is a subsidiary of Haitong International Holdings Limited, a wholly-owned subsidiary of Haitong Securities Co., Ltd.

Save as disclosed above, as at 31 December 2017, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

For the year ended 31 December 2017, the Group has the following continuing connected transactions which are exempt from the independent Shareholders' approval requirement under Rule 14A.34 of the Listing Rules:

On 31 May 2016, new tenancy agreements (the "New Tenancy Agreements") were respectively entered into (i) between New Rank Services Limited (a wholly-owned subsidiary of the Company) as tenant and Winrich Investments Limited as landlord for leasing of the office premises; (ii) between New Rank Services Limited as tenant and Goldrich Investments Limited as landlord for leasing of the office premises; and (iii) between New Rank Services Limited as tenant and Jiacheng Jiaxin International Property Management (Hong Kong) Limited as landlord for leasing of the staff quarter and car parking space. The New Tenancy Agreements are for a term of two years commencing from 1 June 2016. All of Winrich Investments Limited, Goldrich Investments Limited and Jiacheng Jiaxin International Property Management (Hong Kong) Limited are companies indirectly wholly-owned by an associate of a connected person of the Company, and therefore the transactions contemplated under the New Tenancy Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As announced by the Company on 30 May 2014, the aggregate Annual Caps for the New Tenancy Agreements, the consideration for the Tenancy Agreements on an annual basis falls within the threshold prescribed in Rule 14A.34 of the Listing Rules. The entering into of the New Tenancy Agreements is therefore subject to the reporting and announcement requirements and annual review requirements under Chapter 14A of the Listing Rules and is exempt from the requirement to obtain independent Shareholders' approval.

The Independent Non-Executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

1. in the normal and usual course of the Group's business;

2. on normal commercial terms; and

3. have been carried out in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The auditors of the Company have reviewed the above continuing connected transactions and provided a letter to the Company confirming that the above continuing connected transactions:

1. have received the approval of the Board;

2. have been entered into in accordance with the relevant agreements governing the transactions; and

3. have not exceeded the annual caps as disclosed in the Company's announcements dated 30 May 2014.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

MAJOR SUPPLIERS

There is no property development project during the year and therefore no purchase payment was paid or payable to suppliers by the Group during the year ended 31 December 2017.

MAJOR CUSTOMER

The Group has no major customers during the year under review.

ENVIRONMENTAL PERFORMANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

Details of which, are set out in the paragraph headed "Management Discussion and Analysis" on page 8.

AUDITORS

The consolidated financial statements for the years ended 31 December 2013, 2014, 2015 and 2016 have been audited by Ascenda Cachet CPA Limited.

The consolidated financial statements for the year ended 31 December 2017 have been audited by World Link CPA Limited, who retire and a resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, World Link CPA Limited.

On behalf of the Board

Han Junran
Chairman

27 March 2018, Hong Kong

Independent Auditor's Report

World Link CPA Limited
華普天健(香港)會計師事務所有限公司

To the members of New City Development Group Limited
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of New City Development Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 43 to 115, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value of the investment properties – Guangzhou Properties	
Reference is made to notes 4, 5 and 7 to the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 19(a) to the consolidated financial statements for further information. Included in the carrying amount of the Group's investment properties were properties in Guangzhou (the "Guangzhou Properties") of approximately HK$719,340,000 which were stated at fair value as at 31 December 2017. For the purpose of assessing the fair value of the Guangzhou Properties, the management determined the fair value of the Guangzhou Properties by income approach based on external evidence such as current market rents for similar properties in the same location and condition, and a suitable discount rate in order to calculate the present value. The management also engaged an independent professional valuer to assist in assessing the fair value of the Guangzhou Properties.	Our procedures in relation to management's assessment of the fair value of the Guangzhou Properties included: – Assessing the design and implementation of key controls which impact the valuation of the Guangzhou Properties; – Engage a valuation specialist to assist us to review the appropriateness of the valuation approach and methodology, the accuracy of the calculations in the valuation model and the market data used on a sample basis; – Assessing the assumptions used in the valuation of the Guangzhou Properties; and recalculating the amount of fair value loss on the Guangzhou Properties; – Directly communicating and challenging with the independent professional valuer on the methodology and assumptions used for the Guangzhou Properties' valuation and assessing on their competence, independence and integrity by considering the professional qualifications and market standing as valuer of investment properties; and – Reviewing the appropriateness of the disclosure in the consolidated financial statements.

Independent Auditor's Report

Key Audit Matter

Impairment assessment of the investment properties – Luoyang Properties

Reference is made to notes 4 and 5 to the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 19(b) to the consolidated financial statements for further information.

Included in the carrying amount of the Group's investment properties were properties under development in Luoyang (the "Luoyang Properties") of approximately HK$74,071,000 which were stated at cost less impairment, if any, as at 31 December 2017.

As detailed in note 19(b) to the consolidated financial statements, the construction of the Luoyang Properties have not been complied (the "Non-Compliance") with a condition of the land use right agreement to commence and complete the construction on or before 1 September 2013 and 1 September 2016, respectively. The directors have sought a legal advice on the Non-Compliance from a PRC lawyer and are of the opinion that the risk for the penalty or the loss on the forfeiture of the land use right is remote.

For the purpose of assessing the recoverable amount of the Luoyang Properties, the management determined the recoverable amount of the Luoyang Properties by direct comparison method based on market observable transactions of similar properties without any significant adjustments. The management also engaged an independent professional valuer to assist in assessing the valuation and was of the opinion that the recoverable amount of the Luoyang Properties was higher than its carrying amount as at 31 December 2017.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's assessment of the recoverable amount of the Luoyang Properties included:

– Reviewing the correspondences between the government and the Group for the Non-Compliance;

– Discussing with the management on matters leading to the Non-Compliance and recent status of their future development plan;

– Reviewing the legal advice regarding the legal and financial consequence arising from the Non-Compliance of the Luoyang Properties;

– Engage a valuation specialist to assist us to review the appropriateness of the valuation approach and methodology, the accuracy of the calculations in the valuation model and the market data used on a sample basis;

– Assessing the assumptions used in the valuation of the Luoyang Properties; and recalculating their recoverable amount;

– Directly communicating and chellenging with the independent professional valuer on the methodology and assumptions used for the Luoyang Properties' valuation and assessing of their competence, independence and integrity by considering the professional qualifications and market standing as valuer of investment properties; and

– Reviewing the appropriateness of the disclosure in the consolidated financial statements.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability assessment for the prepayments, deposits and other receivables	
Reference is made to notes 4 and 5 to the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and notes 23(c), 23(d) and 23(f) to the consolidated financial statements for further information. Included in the carrying amount of the Group's prepayments, deposits and other receivables of approximately HK$211,576,000 as at 31 December 2017 were (i) approximately HK$49,520,000 being deposit held by an independent contractor; (ii) approximately HK$41,962,000 being deposit held by 珠海市潤珠商貿有限公司; and (iii) approximately HK$47,616,000 being amount due from 北京中証房地產開發有限公司. The recoverability of the deposits of approximately HK$49,520,000 and HK$41,962,000, and other receivables of approximately HK$47,616,000 were guaranteed by Mr. Han Junran, the director and ultimate controlling party of the Company. The recoverability of deposits and other receivables is estimated by the management through the application of judgment and estimation. The Group's policy for recognition of impairment on deposits and other receivables is based on the evaluation of recoverability, ageing analysis and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation and recoverability of these deposits and other receivables, including the current creditworthiness and the past collection history of each counterparty and the guarantor.	Our procedures in relation to management's assessment of the recoverability of the deposits and other receivables included: – Obtaining an understanding of how management estimated the recoverability of the deposits and other receivables and evaluating the historical accuracy of the impairment estimation by management (including revision of the agreements, assessment of the collectability and financial capability of the counterparties and the guarantor); – Reviewing management's assessment of whether events indicate of impairment exist and evaluating this assessment, including a challenge of the validity and completeness of the events identified with reference to our knowledge of the businesses obtained elsewhere during our audit (e.g. ultimate realisation of the deposits, the feasibility of the properties improvement, the current creditworthiness and the past collection history of the counterparty and the guarantor); – Assessing the basis of management's assessment of recoverability of deposits and other receivables with reference to the management's evaluation of counterparties' creditworthiness, credit history including default or delay in payments, settlement records, subsequent settlements from counterparties and ageing analysis of each individual counterparty; and – Recalculating the amount of the impairment on prepayments, deposits and other receivables and assessing the sufficiency of the impairment as at 31 December 2017.

Independent Auditor's Report

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

World Link CPA Limited
Certified Public Accountants

Lo Ka Ki
Audit Engagement Director
Practising Certificate Number – P06633

5th Floor,
Far East Consortium Building,
121 Des Voeux Road Central,
Hong Kong

Hong Kong, 27 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Revenue	*9*	**39,076**	34,982
Cost of services provided		**(3,124)**	(3,116)
Gross profit		**35,952**	31,866
Other income	*10*	**31,697**	8,757
Administrative and other operating expenses		**(27,594)**	(24,973)
Finance costs	*11*	**(13,952)**	(12,721)
Profit before tax		**26,103**	2,929
Income tax expense	*12*	**(3,093)**	(1,710)
Profit for the year	*13*	**23,010**	1,219
Profit for the year attributable to:			
Owners of the Company		**23,274**	1,294
Non-controlling interests		**(264)**	(75)
		23,010	1,219
Earnings per share attributable to ordinary equity holders of the Company			
Basic	*16*	**0.70 cents**	0.04 cents
Diluted	*16*	**0.70 cents**	0.04 cents

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	**23,010**	1,219
Other comprehensive income for the year, net of tax:		
Item that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**37,034**	(26,958)
Total comprehensive income for the year	**60,044**	(25,739)
Total comprehensive income for the year attributable to:		
Owners of the Company	**60,041**	(25,621)
Non-controlling interests	**3**	(118)
	60,044	(25,739)

Consolidated Statement of Financial Position

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	18	**3,968**	1,968
Investment properties	19	**793,411**	736,551
Investment in an associate	20	**–**	–
Available-for-sale investment	21	**–**	–
Prepayments, deposits and other receivables	23	**206,027**	124,377
		1,003,406	862,896
Current assets			
Equity investment at fair value through profit or loss	22	**57,906**	37,628
Prepayments, deposits and other receivables	23	**5,549**	39,745
Due from an associate	20	**11**	9
Due from a related company	24	**11**	8
Due from a non-controlling shareholder	24	**1,580**	–
Cash and bank balances	25	**35,684**	40,045
		100,741	117,435
Current liabilities			
Accruals and other payables	26	**21,307**	12,872
Deposits received		**9,156**	7,738
Finance lease payable	27	**–**	101
Interest-bearing bank borrowings, secured	28	**3,597**	3,334
Due to non-controlling shareholders	24	**5,820**	4,710
Due to related parties	24	**612**	609
Due to a director	24	**1,560**	1,440
Tax payable		**3,064**	1,371
		45,116	32,175
Net current assets		**55,625**	85,260
Total assets less current liabilities		**1,059,031**	948,156
Non-current liabilities			
Interest-bearing bank borrowings, secured	28	**236,183**	196,700
Deferred tax liabilities	29	**159,111**	147,763
		395,294	344,463
Net assets		**663,737**	603,693
Equity			
Equity attributable to owners of the Company			
Share capital	30	**13,268**	13,268
Reserves	31	**650,031**	589,990
		663,299	603,258
Non-controlling interests		**438**	435
Total equity		**663,737**	603,693

Approved and authorised for issue by the Board of Directors on 27 March 2018.

Han Junran
Director

Seto Man Fai
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium account (note 31(a)) HK$'000	Contributed surplus (note 31(b)) HK$'000	Translation reserve (note 31(c)) HK$'000	Statutory reserve (note 31(d)) HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016	13,268	457,758	4,755	(22,493)	15,902	159,689	628,879	553	629,432
Profit for the year	–	–	–	–	–	1,294	1,294	(75)	1,219
Exchange difference on translation of foreign operations	–	–	–	(26,915)	–	–	(26,915)	(43)	(26,958)
Total comprehensive income for the year	–	–	–	(26,915)	–	1,294	(25,621)	(118)	(25,739)
Appropriations	–	–	–	–	850	(850)	–	–	–
Changes in equity for the year	–	–	–	(26,915)	850	444	(25,621)	(118)	(25,739)
At 31 December 2016 and 1 January 2017	13,268	457,758	4,755	(49,408)	16,752	160,133	603,258	435	603,693
Profit for the year	**–**	**–**	**–**	**–**	**–**	**23,274**	**23,274**	**(264)**	**23,010**
Exchange difference on translation of foreign operations	**–**	**–**	**–**	**36,767**	**–**	**–**	**36,767**	**267**	**37,034**
Total comprehensive income for the year	**–**	**–**	**–**	**36,767**	**–**	**23,274**	**60,041**	**3**	**60,044**
Appropriations	**–**	**–**	**–**	**–**	**1,852**	**(1,852)**	**–**	**–**	**–**
Changes in equity for the year	**–**	**–**	**–**	**36,767**	**1,852**	**21,422**	**60,041**	**3**	**60,044**
At 31 December 2017	**13,268**	**457,758**	**4,755**	**(12,641)**	**18,604**	**181,555**	**663,299**	**438**	**663,737**

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	**2017** **HK$'000**	2016 HK$'000
Cash flows from operating activities			
Profit before tax		**26,103**	2,929
Adjustments for:			
Finance costs	*11*	**13,952**	12,721
Interest income	*10*	**(8,397)**	(7,447)
Depreciation of property, plant and equipment			
– Owned assets	*13*	**430**	465
– Leased assets	*13*	**92**	184
Fair value loss/(gain) on investment properties	*13*	**1,199**	(1,211)
Fair value gain on equity investment at fair value through profit of loss	*10*	**(17,112)**	(99)
Unrealised foreign exchange gains on equity investment at fair value through profit of loss	*22*	**(3,166)**	(553)
Operating profit before movements in working capital		**13,101**	6,989
Increase in prepayments, deposits and other receivables		**(36,609)**	(28,411)
Increase in amount due from a non-controlling shareholder		**(1,580)**	–
Increase/(decrease) in accruals and other payables		**7,526**	(86,348)
Increase/(decrease) in deposits received		**809**	(93)
Increase in amount due to a director		**120**	120
Cash used in operations		**(16,633)**	(107,743)
Overseas taxes paid		**(1,555)**	(2,667)
Net cash used in operating activities		**(18,188)**	(110,410)
Cash flow from investing activities			
Increase in amount due from an associate		**(2)**	(1)
Increase in amount due from a related company		**(3)**	–
Purchases of items of property, plant and equipment		**(2,337)**	(360)
Interest received		**60**	276
Net cash used in investing activities		**(2,282)**	(85)
Cash flow from financing activities			
Interest paid		**(13,952)**	(12,721)
Increase in amounts due to non-controlling shareholders		**738**	2,603
Decrease in amounts due to related parties		**(41)**	(1,939)
Capital element of finance lease rental payments		**(101)**	(165)
New bank loans		**237,120**	–
Repayment of bank loans		**(208,944)**	–
Net cash from/(used in) financing activities		**14,820**	(12,222)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Net decrease in cash and cash equivalents		**(5,650)**	(122,717)
Cash and cash equivalents at 1 January		**40,045**	164,278
Effect of foreign exchange rate changes, net		**1,289**	(1,516)
Cash and cash equivalents at 31 December		**35,684**	40,045
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*25*	**35,684**	40,045

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. CORPORATE INFORMATION

New City Development Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 10 August 1998. The registered office of the Company is located at P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands and its principal place of business in Hong Kong is situated at Flat D, 17/F., MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in property development and investment in the People's Republic of China (the "PRC") which have not been changed during the year.

The shares of the Company have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 24 May 2000.

In the opinion of the directors of the Company, Junyi Investments Limited, a company incorporated in the British Virgin Islands ("BVI") is the immediate and ultimate parent of the Company and Mr. Han Juran ("Mr. Han"), a director of the Company, is the ultimate controlling party of the Company.

Information about subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2017 are as follows:

Name	Class of shares held	Place of incorporation/ establishment	Nominal value of issued ordinary/ paid up capital	Percentage of ownership interest		Principal activities and place of operation
				Direct	Indirect	
NR (BVI) Holdings Limited	Ordinary	BVI	US$47,001	100%	–	Investment holding, Hong Kong
Polywell Finance Corporation	Ordinary	BVI	US$1	100%	–	Investment holding, Hong Kong
Easy Frontier Holdings Limited	Ordinary	BVI	US$1	100%	–	Investment holding, Hong Kong
New City Education Investment Holdings Limited	Ordinary	BVI	US$1	100%	–	Investment holding, Hong Kong
New City Medicare Investment Holdings Limited	Ordinary	Samoa	US$1	100%	–	Investment holding, Hong Kong
New City Aviation Investment Holdings Limited	Ordinary	Hong Kong	HK$100	100%	–	Investment holding, Hong Kong
New City Cultural Investment Holdings Limited	Ordinary	Hong Kong	HK$100	100%	–	Investment holding, Hong Kong
Perfection King Limited	Ordinary	Hong Kong	HK$1	100%	–	Investment holding, Hong Kong

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Name	Class of shares held	Place of incorporation/ establishment	Nominal value of issued ordinary/ paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities and place of operation
New City Development Services Holdings Limited	Ordinary	Samoa	US$1	100%	–	Investment holding, Hong Kong
Ultimate Perfect Limited	Ordinary	Samoa	US$1	100%	–	Investment holding, Hong Kong
New Rank (BVI 2) Limited	Ordinary	BVI	US$36,000	–	100%	Investment holding, Hong Kong
Precise Assets Limited	Ordinary	BVI	US$1	–	100%	Investment holding, Hong Kong
Team Success Management Limited	Ordinary	BVI	US$1	–	100%	Inactive, Hong Kong
New Rank Services Limited	Ordinary	Hong Kong	HK$2	–	100%	General management, Hong Kong
Very Best Investments Limited	Ordinary	BVI	US$1	–	100%	Inactive, Hong Kong
Brilliant Centre Limited	Ordinary	Hong Kong	HK$1	–	100%	Inactive, Hong Kong
French Land Limited	Ordinary	Marshall Islands	US$50,000	–	100%	Investment holding, Hong Kong
Fudi International Holding Co., Limited	Ordinary	Hong Kong	HK$10,000	–	100%	Investment holding, Hong Kong
廣東暢流投資有限公司("暢流")#	Capital contribution	PRC	RMB40,000,000	–	100%	Property development and investment, Guangzhou, PRC
Kayuan Enterprise Investment Co., Limited	Ordinary	Marshall Islands	US$50,000	–	100%	Inactive, Hong Kong
Novel Apex Investments Limited	Ordinary	Hong Kong	HK$1	–	100%	Investment holding, Hong Kong
New City Car Parking Development Operation Limited	Ordinary	Hong Kong	HK$100	–	70%	Inactive, Hong Kong
New City Bus Investment Limited	Ordinary	Hong Kong	HK$100	–	100%	Inactive, Hong Kong
Faith Onward (Hong Kong) Investments Limited	Ordinary	Hong Kong	HK$1	–	100%	Investment holding, Hong Kong

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Name	Class of shares held	Place of incorporation/ establishment	Nominal value of issued ordinary/ paid up capital	Percentage of ownership interest		Principal activities and place of operation
				Direct	Indirect	
信誠(洛陽)酒店物業管理有限公司*	Capital contribution	PRC	RMB2,000,000	–	90%	Investment holding, PRC
洛陽萬亨置業有限公司@	Capital contribution	PRC	RMB8,000,000	–	90%	Property development and investment in Luoyang, PRC
廣東暢揚投資股份有限公司@	Capital contribution	PRC	RMB10,000,000	–	70%	Investment holding, PRC
廣州暢影影視製作有限公司@	Capital contribution	PRC	RMB3,000,000	–	60%	Inactive, PRC
惠州市新暢揚實業投資有限公司@	Capital contribution	PRC	RMB10,000,000	–	70%	Inactive, PRC

Registered as a wholly-foreign-owned enterprise under the PRC Law.

@ Registered as a limited liability company under the PRC Law.

* Registered as a foreign investment enterprise under the PRC Law.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 below provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an 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, using consistent accounting policies. The results of 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 owners 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 interest 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.

3. ADOPTION OF NEW AND REVISED HKFRSs

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these impact on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The effect of the amendments on the Group's consolidated financial statements has been the inclusion of additional disclosures in note 38.

Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided this information in note 38.

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

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value. The amendments had no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to HKFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in HKFRS 12 (Annual Improvements Cycle 2014-2016)

The amendments clarify that the disclosure requirements in HKFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

These amendments had no impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2017. These new and revised HKFRSs include the following which may be relevant to the Group:

		Effective for accounting periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to HKAS 40	Investment Property: Transfers of investment property	1 January 2018
HKFRS 16	Leases	1 January 2019
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9, HKFRS 15 and HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially adopted in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 9 Financial Instruments

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of HKFRS 9 to the Group's consolidated financial statements as follows:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 Financial Instruments (Continued)

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at amortised costs, fair value through profit or loss and fair value through other comprehensive income. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and at fair value through profit or loss will continue with their classification and measurements upon the adoption of HKFRS 9. The Group currently measures certain unlisted equity investment at cost less impairment. Under HKFRS 9, these investments held as available-for-sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's other financial assets.

Based on historical experience of the Group, the default rate of the outstanding balances with customers is low. Hence, the directors of the Company anticipate that the application of HKFRS 9 would not have material impact on the Group's future consolidated financial statements. The above assessments were made based on an analysis of the Group's financial assets as at 31 December 2017 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of HKFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer

2. Identify the performance obligations in the contract

3. Determine the transaction price

4. Allocate the transaction price to the performance obligations in the contract

5. Recognise revenue when or as the entity satisfies a performance obligation

Currently, other than the rental income, the main revenue of the Group is the building management service income which is recognised when the services are rendered.

Management has assessed the effects of applying the new standard on the Group's financial statements and does not expect a significant impact on the recognition of revenue.

The rental income of the Group is recognised in accordance with HKAS 17 Leases. The adoption of HKFRS 15 will not affect the recognition of rental income. The impact of rental income under HKFRS 16 was mentioned below.

3. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 35 to the consolidated financial statements, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately HK$1,179,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, except for investment properties and equity investment at fair value through profit or loss, which have been measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

(a) Investment in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

(b) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Business combinations and goodwill (Continued)

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 recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised 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 recognised 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 recognised 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, recognised 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 recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Fair value measurement

The Group measures its investment properties and equity investment at fair value through profit and loss, at fair value 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 consolidated 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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties and equity investment at fair value through profit or loss), 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 the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of 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 other than goodwill 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 the consolidated statement of profit or loss in the period in which it arises.

(e) Related parties

For the purposes of these financial statements, a related party is a person or entity that is related to the Group.

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or a parent of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Related parties (Continued)

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

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

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

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

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

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

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

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

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

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any 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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (Continued)

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 over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold building	Over the term of the lease
Leasehold improvements	Over the term of the lease
Furniture and fixtures	18-35%
Motor vehicles	15-25%

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 lease at each financial year end.

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

(g) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative 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 the consolidated statement of 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 the consolidated statement of profit or loss in the year of the retirement or disposal.

Construction in progress represents a building under construction for future use as an investment property, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is stated at fair value at the end of the reporting period when completed and ready for use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance lease, but are depreciated over their estimated useful lives.

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 operating leases are credited to the consolidated statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(i) Investments and other financial assets

Initial recognition and measurement

The Group's financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, 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 market place.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investments and other financial assets (Continued)

Subsequent measurement

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

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 charged to the consolidated statement of 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.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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 the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investments and other financial assets (Continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investment and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the consolidated statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the consolidated statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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.

(k) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is 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.

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For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (Continued)

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.

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 the consolidated statement of 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 the consolidated statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss, is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss – is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgment. In making this judgment the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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 other payables and accruals, deposits received, finance lease payable, interest bearing bank and other borrowings, and amounts due to a non-controlling shareholder, related parties and directors.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term.

This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. The net fair value gain or loss recognised in the consolidated statement of profit or loss does not include any interest charged on these financial liabilities.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial liabilities (Continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated of profit or loss statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is charged to the consolidated statement of profit or loss.

(m) 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 the consolidated statement of profit or loss.

(n) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is 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.

(o) 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 positions, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

(q) 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 for the current and prior periods 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 all temporary differences at the end of the 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 temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) 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, and 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, 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(r) Revenue recognition

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) rental income, on a time proportion basis over the lease terms;

(b) management service income, when the services are rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or shorter period, when appropriate, to the net carrying amount of the financial asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the MPF Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of 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, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute to the central pension scheme. The contributions are calculated as a percentage of employees' salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

(t) Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates 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 in the consolidated statement of 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).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(u) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

The preparation of the Group's consolidated 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 outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Judgements (Continued)

(a) *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately.

If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(b) *Income taxes*

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provision are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(c) *Deferred tax for investment properties*

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted as the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. As the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

(d) *Financial implication of regulations of idle land*

Under the PRC laws and regulations, if a property developer fails to commence the development of land within the timeframe designated in the land grant contract, the PRC government may regard the land as idle land and issue a warning or impose a penalty on the developer or reclaim the land. The directors of the Company have sought a legal advice from a PRC lawyer and are of the opinion that the delay of the construction of the Luoyang Properties was due to the changing of land policy by the Luoyang government in the previous years and the risk for the penalty or the loss on the forfeiture is minimal. Accordingly, no provision in respect of the penalty, if any, has been made in the consolidated financial statements as at 31 December 2017 and 2016.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

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) Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Provision for impairment of receivables

The policy of the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including these current creditworthiness and the past collection history of each customer.

(c) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(d) Estimated fair value of investment properties in Guangzhou

As detailed in note 19(a) to the consolidated financial statements, the valuation method of the investment properties in Guangzhou was using income approach which is estimated fair value expected to be recovered from leasing out of the investment properties by reference to the terms of the existing tenancy agreements and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and a suitable discount rate in order to calculate the present value. A considerable amount of judgement and estimation is required in assessing the fair value of the properties.

Notes to the Consolidated Financial Statements

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6. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise accruals and other payables and interest-bearing bank borrowings, secured. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 4 to the consolidated financial statements.

(a) Foreign currency risk

The directors are of the opinion that almost all of the transactions of the Group and recognised financial assets and liabilities are denominated in Hong Kong Dollar ("HK$"), Renminbi ("RMB") or New Taiwan Dollar ("NT$"). The Group currently does not have a foreign currency hedging policy. However, the management will monitor the foreign exchange exposure and consider to hedge significant item should the need arises.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate of RMB and NT$, with all other variables held constant, of the Group's profit before tax due to changes in the fair value of monetary assets and liabilities and the Group's equity.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
	%	HK$'000	HK$'000
At 31 December 2017			
If the HK$ weakens against RMB	**5**	**2,389**	**–**
If the HK$ strengthens against RMB	**(5)**	**(2,389)**	**–**
If the HK$ weakens against NT$	**5**	**2,895**	**–**
If the HK$ strengthens against NT$	**(5)**	**(2,895)**	**–**
At 31 December 2016			
If the HK$ weakens against RMB	5	1,843	–
If the HK$ strengthens against RMB	(5)	(1,843)	–
If the HK$ weakens against NT$	5	1,881	–
If the HK$ strengthens against NT$	(5)	(1,881)	–

* Excluding retained profits

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

The Group's credit risk is primarily attributable to deposits and other receivables, amounts due from an associate, a related company and a non-controlling shareholder and cash and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Where applicable, allowance for impairment would be made to reduce the exposure to the credit risk in relation to these receivables.

The Group has no significant concentrations of credit risk. Deposits and other receivables, amounts due from an associate, a related company and a non-controlling shareholder are closely monitored by the directors.

The credit risk on cash and bank balances and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Interest rate risk

The Group's exposure to the risk of changes in market interest rates related primarily to the Group's interest-bearing bank borrowings, secured with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's profit before tax and Group's equity.

	Increase/ (decrease) in interest rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
	%	HK$'000	HK$'000
At 31 December 2017			
If the interest rate increase	**1%**	**(2,398)**	**–**
If the interest rate decrease	**(1%)**	**2,398**	**–**
At 31 December 2016			
If the interest rate increase	1%	(2,000)	–
If the interest rate decrease	(1%)	2,000	–

* Excluding retained profits

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay.

The maturity analysis of the Group's financial liabilities based on contractual undiscounted cash flow is as follows:

31 December 2017	**On demand HK$'000**	**Less than 1 year HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Financial liabilities included in accruals and other payables	**11,689**	**9,618**	**–**	**–**	**21,307**
Interest-bearing bank borrowings, secured	**–**	**19,737**	**116,401**	**206,967**	**343,105**
Due to non-controlling shareholders	**5,820**	**–**	**–**	**–**	**5,820**
Due to related parties	**612**	**–**	**–**	**–**	**612**
Due to a director	**1,560**	**–**	**–**	**–**	**1,560**
	19,681	**29,355**	**116,401**	**206,967**	**372,404**

31 December 2016	On demand HK$'000	Less than 1year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Financial liabilities included in accruals other payables and	10,835	2,037	–	–	12,872
Finance lease payable	–	103	–	–	103
Interest-bearing bank borrowings, secured	–	15,166	229,326	–	244,492
Due to a non-controlling shareholder	4,710	–	–	–	4,710
Due to related parties	609	–	–	–	609
Due to a director	1,440	–	–	–	1,440
	17,594	17,306	229,326	–	264,226

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Categories of financial instruments at 31 December

31 December 2017

Financial assets	Financial assets at fair value through profit or loss: held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investment	–	–	–	–
Equity investment at fair value through profit or loss	57,906	–	–	57,906
Financial assets included in prepayments, deposits and other receivables	–	161,836	–	161,836
Due from an associate	–	11	–	11
Due from a related company	–	11	–	11
Due from a non-controlling shareholder	–	1,580	–	1,580
Cash and bank balances	–	35,684	–	35,684
	57,906	199,122	–	257,028

Financial liabilities	Financial liabilities at amortised cost HK$'000
Financial liabilities included in accruals and other payables	21,307
Due to non-controlling shareholders	5,820
Due to related parties	612
Due to a director	1,560
Interest-bearing bank borrowings, secured	239,780
	269,079

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Categories of financial instruments at 31 December (Continued)

31 December 2016

Financial assets	Financial assets at fair value through profit or loss: held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investment	–	–	–	–
Equity investment at fair value through profit or loss	37,628	–	–	37,628
Financial assets included in prepayments, deposits and other receivables	–	94,186	–	94,186
Due from an associate	–	9	–	9
Due from a related company	–	8	–	8
Cash and bank balances	–	40,045	–	40,045
	37,628	134,248	–	171,876

Financial liabilities	Financial liabilities at amortised cost HK$'000
Financial liabilities included in accruals and other payables	12,872
Due to a non-controlling shareholder	4,710
Due to related parties	609
Due to a director	1,440
Interest-bearing bank borrowings, secured	200,034
	219,665

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. At the end of the reporting period, the Group is exposed to equity price risk. Mainly through its equity investment listed on The Taiwan Stock Exchange designated at fair value through profit or loss. The sensitivity analysis below have been determined based on the exposure to equity price risk at the end of reporting period.

If equity price had been 10% higher/lower (2016: 10% higher/lower):

– Profit after tax for the year ended 31 December 2017 would increase/decrease by approximately HK$5,791,000 (2016: HK$3,763,000).

(g) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes accruals and other payables, deposits received, finance lease payable, interest-bearing bank borrowings, secured and amounts due to non-controlling shareholders, related parties and a director, less cash and bank balances. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the end of reporting periods were as follows:

	2017 **HK$'000**	2016 HK$'000
Accruals and other payables	**21,307**	12,872
Deposits received	**9,156**	7,738
Finance lease payable	**–**	101
Interest-bearing bank borrowings, secured	**239,780**	200,034
Due to non-controlling shareholders	**5,820**	4,710
Due to related parties	**612**	609
Due to a director	**1,560**	1,440
Less: Cash and bank balances	**(35,684)**	(40,045)
Net debts	**242,551**	187,459
Total capital:		
Equity attributable to equity holders	**663,299**	603,258
Capital and net debt	**905,850**	790,717
Gearing ratio	**27%**	24%

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For the year ended 31 December 2017

7. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, deposits and other receivables, the amounts due from an associate, a related company and a non-controlling shareholder, financial liabilities included in accruals and other payables, and amounts due to non-controlling shareholders, related parties and a director approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair values of finance lease payable, interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payable, and interest-bearing bank and other borrowings as at 31 December 2017 and 2016 was assessed to be insignificant.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

	Fair value measurement using			
	Quoted prices in active markets (level 1)	**Significant observable inputs (level 2)**	**Significant unobservable inputs (level 3)**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2017				
Equity investment at fair value through profit or loss	**57,906**	**–**	**–**	**57,906**
As at 31 December 2016				
Equity investment at fair value through profit or loss	37,628	–	–	37,628

8. OPERATING SEGMENT INFORMATION

For management purposes, the Group's primary operating segment is property development and investment in the PRC. Since this is the only operating segment of the Group, no further analysis thereof is presented.

Geographical information

The Group operates principally in the PRC. Over 90% of the Group's assets are located in the PRC and over 90% of the revenue are generated in the PRC. Accordingly, no further geographical information of total assets and revenue was disclosed.

Information about a major customer

Rental income and related management service income

There are no significant concentrations of credit risk within the Group because there is a large number of diversified tenants.

9. REVENUE

Revenue represents the value of property management services rendered and gross rental income received and receivable from the investment properties.

An analysis of the Group's revenue for the year is as follows:

	2017	2016
	HK$'000	HK$'000
Rental income and related management service income	**39,076**	34,982

10. OTHER INCOME

	2017	2016
	HK$'000	HK$'000
Interest income	**8,397**	7,447
Fair value gain on equity investment at fair value through profit or loss	**17,112**	99
Fair value gain on investment properties	**–**	1,211
Net foreign exchange gains	**6,188**	–
	31,697	8,757

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11. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank borrowings	**13,950**	12,709
Finance lease charges	**2**	12
	13,952	12,721

12. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2016: Nil).

Under the Enterprise Income Tax Law, the enterprise income tax is calculated at a rate of 25% (2016: 25%) on the Group's estimated assessable profits arising in the PRC during the year.

	2017 HK$'000	2016 HK$'000
Current tax		
Hong Kong	**–**	–
PRC	**3,341**	1,384
Under-provision in prior years	**52**	23
	3,393	1,407
Deferred tax *(note 29)*	**(300)**	303
	3,093	1,710

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to effective tax rates, is as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax	**26,103**	2,929
Tax at applicable tax rate	**5,123**	1,210
Tax effect of income that is not taxable	**(5,122)**	(1,222)
Tax effect of expenses that are not deductible	**3,030**	1,686
Tax effect of temporary differences not recognised	**10**	13
Under-provision in prior years	**52**	23
Income tax expense	**3,093**	1,710

12. INCOME TAX EXPENSE (CONTINUED)

As at 31 December 2017 and 2016, the Group has not provided deferred tax assets in respect of tax losses available and decelerated depreciation for offsetting future assessable profits calculated at the rate of 16.5% (2016: 16.5%) as follows:

	2017	2016
	HK$'000	HK$'000
Tax losses	**255**	255
Decelerated depreciation	**178**	168
	433	423

13. PROFIT FOR THE YEAR

The Group's profit for the year is arrived at after charging/(crediting):

	2017	2016
	HK$'000	HK$'000
Auditor's remuneration		
– Current	**500**	500
– Under-provision in prior year	**172**	–
	672	500
Cost of services provided	**3,124**	3,116
Depreciation of property, plant and equipment		
– Owned assets	**430**	465
– Leased assets	**92**	184
	522	649
Staff cost (including directors' remuneration)		
– Salaries, bonuses and allowances	**11,975**	10,344
– Contributions to defined contribution retirement plan	**626**	586
	12,601	10,930
Minimum lease payment under operating leases on land and buildings*	**1,663**	1,572
Net foreign exchange (gains)/losses	**(6,188)**	1,551
Fair value gain on equity investment at fair value through profit or loss	**(17,112)**	(99)
Fair value loss/(gain) on investment properties	**1,199**	(1,211)

* Minimum lease payments under operating leases on land and buildings included rental for director quarter of approximately HK$624,000 (2016: HK$624,000).

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14. BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, Sections 383(1)(a), (b), (c), (e) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance are as follows:

	2017 HK$'000	2016 HK$'000
Fees	**600**	549
Other emoluments:		
salaries, wages and other benefits	**4,234**	4,319
contributions to defined contribution retirement plan	**63**	65
	4,297	4,384
	4,897	4,933

31 December 2017	**Fees HK$'000**	**Salaries, allowance and benefits in kind HK$'000**	**Pension scheme contribution HK$'000**	**Total HK$'000**
Executive directors				
Mr. Han Junran	**–**	**1,924**	**18**	**1,942**
Mr. Fu Yiu Kwong *(Note 1)*	**–**	**520**	**9**	**529**
Mr. Luo Min	**–**	**750**	**18**	**768**
Mr. Seto Man Fai *(Note 2)*	**–**	**1,040**	**18**	**1,058**
	–	**4,234**	**63**	**4,297**
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	**120**	**–**	**–**	**120**
Mr. Zheng Qing	**120**	**–**	**–**	**120**
Dr. Ouyang Qingru	**120**	**–**	**–**	**120**
Mr. Leung Kwai Wah Alex *(Note 3)*	**120**	**–**	**–**	**120**
Mr. Zhang Jing *(Note 3)*	**120**	**–**	**–**	**120**
	600	**–**	**–**	**600**
	600	**4,234**	**63**	**4,897**

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14. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (continued)

31 December 2016	Fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Pension scheme contribution HK$'000	Total HK$'000
Executive directors				
Mr. Han Junran	–	1,924	18	1,942
Mr. Fu Yiu Kwong	–	1,040	18	1,058
Mr. Luo Min	–	754	18	772
Mr. Seto Man Fai *(Note 2)*	–	601	11	612
	–	4,319	65	4,384
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	120	–	–	120
Mr. Zheng Qing	120	–	–	120
Mr. Seto Man Fai *(Note 2)*	51	–	–	51
Dr. Ouyang Qingru	120	–	–	120
Mr. Leung Kwai Wah Alex *(Note 3)*	69	–	–	69
Mr. Zhang Jing *(Note 3)*	69	–	–	69
	549	–	–	549
	549	4,319	65	4,933

Note 1: Mr. Fu Yiu Kwong resigned as an executive director with effect from 27 June 2017.

Note 2: Mr. Seto Man Fai was re-designated as an executive director from independent non-executive director with effect from 3 June 2016.

Note 3: Mr. Leung Kwai Wah Alex and Mr. Zhang Jing were appointed as independent non-executive directors of the Company with effect from 3 June 2016.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (2016: Nil).

There was no discretionary bonus paid or payable to any of the directors during the year (2016: Nil).

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14. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (continued)

The number of directors, whose remuneration fell within the following bands, is as follows:

	2017	2016
Nil to HK$1,000,000	7	7
HK$1,000,001 to HK$2,000,000	2	2
	9	9

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2016: four) directors, details of whose remuneration are set out in note 14 above. Details of the remuneration of the remaining one (2016: one) non-director, highest paid employee for the year are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	780	780
Pension scheme contributions	18	18
	798	798

There was no discretionary bonus paid or payable to any of the five highest paid employees during the year (2016: Nil).

The number of non-directors, highest paid employees, whose remuneration fell within the following bands, is as follows:

	2017	2016
Nil to HK$1,000,000	1	1

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16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the years ended 31 December 2017 and 2016.

The calculation of basic earnings per share is based on:

	2017	2016
	HK$'000	HK$'000
Profit for the year attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**23,274**	1,294

	Number of shares	
	2017	2016
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**3,317,045,040**	3,317,045,040

No adjustment has been made to the basic earnings per share for the years ended 31 December 2017 and 2016 in respect of a dilution as there were no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

17. DIVIDENDS

The directors did not recommend any dividend for the year ended 31 December 2017 (2016: Nil).

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18. PROPERTY, PLANT AND EQUIPMENT

31 December 2017	Leasehold building HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2017:					
Cost	986	1,767	1,897	2,073	6,723
Accumulated depreciation	(205)	(1,575)	(1,254)	(1,721)	(4,755)
Net carrying amount	781	192	643	352	1,968
At 1 January 2017, net of accumulated depreciation	781	192	643	352	1,968
Additions	–	1,341	14	982	2,337
Depreciation provided during the year	(21)	(155)	(81)	(265)	(522)
Exchange realignment	63	30	39	53	185
At 31 December 2017, net of accumulated depreciation	823	1,408	615	1,122	3,968
At 31 December 2017:					
Cost	1,064	3,401	1,773	2,919	9,157
Accumulated depreciation	(241)	(1,993)	(1,158)	(1,797)	(5,189)
Net carrying amount	823	1,408	615	1,122	3,968

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

31 December 2016	Leasehold building HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2016:					
Cost	1,043	1,800	1,938	1,770	6,551
Accumulated depreciation	(195)	(1,479)	(1,166)	(1,353)	(4,193)
Net carrying amount	848	321	772	417	2,358
At 1 January 2016, net of accumulated depreciation	848	321	772	417	2,358
Additions	–	–	43	317	360
Depreciation provided during the year	(22)	(117)	(140)	(370)	(649)
Exchange realignment	(45)	(12)	(32)	(12)	(101)
At 31 December 2016, net of accumulated depreciation	781	192	643	352	1,968
At 31 December 2016:					
Cost	986	1,767	1,897	2,073	6,723
Accumulated depreciation	(205)	(1,575)	(1,254)	(1,721)	(4,755)
Net carrying amount	781	192	643	352	1,968

The carrying amount of the Group's motor vehicle held under finance lease (note 27) included in the total amount of motor vehicles at 31 December 2016 amounted to approximately HK$92,000. No motor vehicle was held under finance lease at 31 December 2017.

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19. INVESTMENT PROPERTIES

	The Guangzhou Properties at fair value		The Luoyang Properties at cost		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Completed project						
Investment properties in Guangzhou *(note (a))*						
Carrying amount at 1 January	**667,892**	705,660	**–**	–	**667,892**	705,660
Change in fair value of investment properties	**(1,199)**	1,211	**–**	–	**(1,199)**	1,211
Exchange realignment	**52,647**	(38,979)	**–**	–	**52,647**	(38,979)
Carrying amount at 31 December	**719,340**	667,892	**–**	–	**719,340**	667,892
Incomplete project						
Investment properties in Luoyang *(note (b))*						
Carrying amount at 1 January	**–**	–	**68,659**	72,662	**68,659**	72,662
Exchange realignment	**–**	–	**5,412**	(4,003)	**5,412**	(4,003)
Carrying amount at 31 December	**–**	–	**74,071**	68,659	**74,071**	68,659
Aggregate carrying amount at 31 December	**719,340**	667,892	**74,071**	68,659	**793,411**	736,551

19. INVESTMENT PROPERTIES (CONTINUED)

Notes:

(a) Investment properties in Guangzhou (the "Guangzhou Properties") are situated at Nos. 20-22 Chigang West Road, Haizhu District, Guangzhou City, Guangdong Province, the PRC and are held under medium term leases.

The Guangzhou Properties were leased to tenants under operating leases for earning rental income and management service income (note 9), further summary details of which are set out in note 35 to the consolidated financial statements. The Guangzhou Properties were stated at fair value at the end of the reporting period.

At 31 December 2017, the Guangzhou Properties with carrying amount of approximately HK$719,340,000 (2016: HK$667,892,000) were pledged to secure bank borrowings, details of which are set out in note 28 to the consolidated financial statements.

The fair value of the Guangzhou Properties has been assessed by Access Partner Consultancy & Appraisals Limited ("Access Partner"), an independent valuer (the "Valuer"), by using the income approach to be RMB600,000,000 (equivalent to approximately HK$719,340,000) (2016: RMB601,000,000 (equivalent to approximately HK$667,892,000)) as at 31 December 2017.

A fair value loss (2016: gain) of the Guangzhou Properties of approximately HK$1,199,000 (2016: HK$1,211,000) was recognised under "administrative and other operating expenses" (2016: "other income and gains") in the consolidated statement of profit or loss. The directors of the Company have reviewed the valuation performed by the Valuer for financial reporting purpose as follows:

- Hold discussions with the Valuer in respect of the methodology, assumptions and key factors used in the valuation;
- Verify all major inputs to the independent valuation report; and
- Assess property valuation movements when compared to the prior year valuation report.

Fair value hierarchy

Details of the Guangzhou Properties and information about its fair value hierarchy as at 31 December 2017 and 2016 are as follows:

	Fair value measurement using			
	Quoted prices in active markets (level 1)	**Significant observable inputs (level 2)**	**Significant unobservable inputs (level 3)**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2017				
Guangzhou Properties	**–**	**–**	**719,340**	**719,340**
As at 31 December 2016				
Guangzhou Properties	–	–	667,892	667,892

During the year, there were no transfers in the fair value hierarchy between Level 1 and Level 2, or transfers into or out of Level 3 (2016: Nil).

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19. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(a) (continued)

Fair value measurement

The Guangzhou Properties are held for the purpose of generating rental income and/or for capital appreciation. The directors considered that the adoption of the income approach is appropriate in accessing the fair value of the Guangzhou Properties as at 31 December 2017. Accordingly, the fair value of the Guangzhou Properties was determined based on the income approach.

Information about the Level 3 fair value measurements is as follows:

Description	Fair value	Valuation technique	Unobservable inputs	Relationship of unobservable inputs to fair value
Industrial properties	HK$719,340,000 (2016: HK$667,892,000)	Income approach	Estimated rental income (per square metre and per month) with a range from RMB50 to RMB75 (2016: from RMB83 to RMB180)	The higher the rental income, the higher the fair value
			Discount rate at 4.5% (2016: 4.75%)	The higher the discount rate the lower the fair value

During the two years ended 31 December 2017, there were no changes in the valuation techniques used.

19. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(b) Investment properties in Luoyang (the "Luoyang Properties") represented the construction in progress of a parcel of land which are situated at 洛陽新區伊濱區環湖路以東,白塔路以南,開拓大道以西,用地界以北, Luoyang, the PRC. The Luoyang Properties were acquired through the acquisition of the subsidiaries during the year ended 31 December 2015. The Luoyang Properties comprise a parcel of land held under medium term leases with a site area of 69,942.185 square metres which can be developed into a total gross floor area of 173,724.12 square metres. Its carrying amount comprised the land use right and directly attributable costs and was stated at acquisition cost of approximately RMB61,782,000 (equivalent to approximately HK$74,071,000 (2016: HK$68,659,000)), and less impairment, if any. The directors are of opinion that the construction planning of the Luoyang Properties has yet been determined as at 31 December 2017 and accordingly, its fair value cannot be measured reliably.

Pursuant to a land use right agreement (國有建設用地使用權出讓合同) (the "Land Use Right Agreement") of the Luoyang Properties, which was entered into between 洛陽萬亨置業有限公司 ("洛陽萬亨"), a subsidiary of the Company and 洛陽國土資源局 ("國土局") on 1 February 2013, 洛陽萬亨 is required to commence and complete the construction of the Luoyang Properties on or before 1 September 2013 and 1 September 2016 (the "Construction Period"), respectively. A penalty (the "Penalty") is calculated at 0.1% per day on the original consideration paid by 洛陽萬亨 for the land use right, which was approximately RMB31,270,000 (equivalent to approximately HK$37,490,000), will be imposed by 國土局 if the construction of the Luoyang Properties was not commenced on time or the completion of the construction falls beyond the Construction Period. The land use right may also be forfeited (the "Forfeiture") by 國土局 if the construction has not been completed beyond 60 days of the Construction Period.

On 17 November 2016, the Group received a notice from 洛陽市城鄉一體化示範區管理委員會國土環保局, pursuant to which, the Group is required to commence the construction of the Luoyang Properties within 15 days after the date of the notice unless the Group has a reasonable excuse. The Group replied and expected to have the construction work commenced in June 2017.

On 26 June 2017, the Group received a 閒置土地調查通知書 (the "Notice of Investigation of Idle Land") from 國土局, pursuant to which, the Group is required to report the construction progress of the Luoyang Properties to 國土局. On 26 July 2017, the Group replied and explained that the delay of the construction of the Luoyang Properties was due to the changing of land policy by the Luoyang government. The Group expected to commence work at the end of 2017. On 5 December 2017, the Group submitted a construction plan of the Luoyang Properties to 洛陽市城鄉規劃局 ("規劃局"). After reviewed by 規劃局, the Group was instructed to modify certain aspects of the construction plan and prepare required documents for resubmission to 規劃局 for further approval before commencement of the construction work.

Up to the approval date of these consolidated financial statements, the construction plan of the Luoyang Properties was still under modification and yet been resubmitted to 規劃局.

In preparing these consolidated financial statements, the directors had sought a legal advice from a PRC lawyer and are of the opinion that the delay of the construction of the Luoyang Properties was caused by the changing of land policy by the Luoyang government in the prior years. Given the Group is proactively communicating with 規劃局 on the modification of construction plan of the Luoyang Properties and the risk of the Penalty or the loss on the Forfeiture is remote. Accordingly, the directors are of the opinion that no provision in respect of the Penalty and/or the Forfeiture, if any, has been made in the consolidated financial statements as at 31 December 2017 and 2016.

Impairment assessment of the Luoyang Properties

The recoverable amount of the Luoyang Properties has been assessed by Access Partner, as at 31 December 2017. No impairment in respect of the Luoyang Properties has been provided as the recoverable amount of the Luoyang Properties was higher than its carrying amount as at 31 December 2017 (2016: Nil).

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20. INVESTMENT IN AN ASSOCIATE

	2017 HK$'000	2016 HK$'000
Unlisted shares, at cost *(note (a))*	–	–
Share of net assets *(note (a))*	–	–
Due from an assoicate *(note (b))*	11	9
	11	9

Particulars of the principal associate are as follows:

Name of associate	Particulars of Issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
New City Fortune Medicare Group Limited	Ordinary shares	Hong Kong	34% (2016: 34%)	Investment holding

Notes:

(a) New City Fortune Medicare Group Limited was incorporated in Hong Kong on 26 September 2014, with investment cost of HK$34. The investment cost has been presented as "-" as a result of rounding. Except for the capital commitment as mentioned in note 36(a) to the consolidated financial statements, the associate did not have any material assets and liabilities as at 31 December 2017 and 2016 and therefore, the Group did not share its net assets during the years ended 31 December 2017 and 2016.

(b) The amount due from an associate is unsecured, interest-free and repayable on demand. It was classified as amount due from an associate in the consolidated statement of financial position.

21. AVAILABLE-FOR-SALE INVESTMENT

	2017 HK$'000	2016 HK$'000
Unlisted equity investments, at cost *(note)*	–	–

Note:

Available-for-sale investment represented 8% equity interest in New City (China) Vocational Education Investments Group Limited ("New City (China)"), with investment cost of HK$8. The available-for-sale investment has been presented as "-" as a result of rounding.

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22. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Listed equity investment in Taiwan, at market value	**57,906**	37,628

The fair value of the equity investment as at 31 December 2017 was determined based on the quoted market bid prices (Level 1 fair value measurement) available on The Taiwan Stock Exchange resulting with a gain on equity investment at fair value through profit or loss and an exchange gain of approximately HK$17,112,000 and HK$3,166,000 respectively (2016: HK$99,000 and HK$553,000 respectively). The above equity as at 31 December 2017 and 2016 was classified as held for trading and was, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

The above equity investment is denominated in NT$.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments		
– Prepaid professional fee for the Luoyang Properties *(note (a))*	**1,806**	1,532
– Prepaid renovation and improvement costs of the Guangzhou Properties *(note (b))*	**47,154**	67,345
– Others	**780**	1,059
Deposits held by		
– Vision Products Limited *(note (c))*	**5,980**	55,500
– An independent contractor *(note (c))*	**49,520**	–
– 珠海市潤珠商貿有限公司 *(note (d))*	**41,962**	–
– 珠海市騰順實業有限公司 *(note (e))*	**11,989**	–
– Others	**289**	274
Other receivables		
– Due from 北京中証房地產開發有限公司 *(note (f))*	**47,616**	36,858
– Others	**4,480**	1,554
	211,576	164,122
Less: Non-current portion	**(206,027)**	(124,377)
Current portion	**5,549**	39,745

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23. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes:

(a) The prepaid professional fee represented design fee and environmental assessment paid to independent construction consultants for the Luoyang Properties with a total contract sum of RMB11,119,000 (equivalent to approximately HK$13,331,000) (2016: RMB11,119,000 (equivalent to approximately HK$12,356,000)). As at 31 December 2017, an aggregate amount of approximately RMB1,506,000 (equivalent to approximately HK$1,806,000) (2016: RMB$1,379,000 (equivalent to approximately HK$1,532,000)) has been prepaid by the Group to the consultants for preparation of the work.

(b) On 28 August 2015, the Group entered into a properties renovation, improvement and upgrading contract (裝修及設備改造項目工程施工合同) (the "Renovation Contract") with 北京吉彩裝飾工程有限公司 ("北京吉彩", a related company of the Company, of which Mr. Han, a director and ultimate controlling party of the Company and his close family members are the ultimate shareholders), for the renovation, improvement and upgrading of the Guangzhou Properties (the "Properties Improvement") with a total contract sum (the "Contract Sum") of RMB133,500,000 (equivalent to approximately HK$148,359,000). Pursuant to the Renovation Contract, the Group is required to prepay (the "北京吉彩 Prepaid Renovation Cost") RMB80,100,000 (equivalent to approximately HK$89,015,000), being 60% of the Contract Sum, to 北京吉彩 with the remaining 35% and 5% of the Contract Sum payable upon completion and user acceptance of the Properties Improvement and 10 days after the 2 years' maintenance period, respectively. The renovation period (the "Renovation Period") is from 15 September 2015 to 15 September 2017. As at 31 December 2016, an aggregate amount of approximately RMB60,600,000 (equivalent to approximately HK$67,345,000) has been prepaid by the Group to 北京吉彩 which is guaranteed by 北京貝盟國際建築裝飾工程有限公司 (the "Guarantor"), an independent third party, pursuant to an agreement (the "Three Parties Agreement") entered into between the Group, 北京吉彩 and the Guarantor on 28 August 2015 whereby the Guarantor irrevocably guarantees and undertakes to procure 北京吉彩 to execute and fulfill its duties and responsibilities (the "Duties") under the Renovation Contract. Upon 北京吉彩's failure to perform its Duties, the Guarantor shall (i) repay to the Group the 北京吉彩 Prepaid Renovation Cost; and (ii) perform the Duties on behalf of 北京吉彩 at the Group's request. On 15 March 2016, the Group further entered into an agreement with Mr. Han, pursuant to which, Mr. Han further guarantees the responsibilities and duties of the Guarantor under the Three Parties Agreement.

However, the original renovation, improvement and upgrading plan has been modified (the "Modified Renovation Plan") by the directors during the year ended 31 December 2016. Therefore, the Group further entered into two memorandum of understanding (the "中科建設MOU") with 中科建設開發總公司天津分公司 ("中科建設") on 26 August 2016 and 6 September 2016, respectively, for engaging 中科建設 as the main contractor for the Properties Improvement while retaining 北京吉彩 as the sub-contractor. Pursuant to the 中科建設 MOU, the total contract sum of the Properties Improvement is revised to RMB180,000,000 (equivalent to approximately HK$200,034,000).

On 1 March 2017, the Group entered into a termination agreement with 北京吉彩 to terminate the Renovation Contract. The prepaid amount of approximately RMB60,600,000 (equivalent to approximately HK$67,345,000) was returned to the Group on 12 December 2017.

During the year ended 31 December 2017, the Group entered into certain properties renovation and improvement contracts with 廣東建通工程有限公司, 廣州振勵建築工程有限公司 and 雙峰縣飛翔建材銷售中心 (the "Contractors") for the renovation and improvement of the Guangzhou Properties with total contract sum of approximately RMB41,833,000 (equivalent to approximately HK$50,154,000). The Group prepaid the Contractors with approximate RMB39,331,000 (equivalent to approximately HK$47,154,000). The renovation work was commenced in the second half of 2017.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

23. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(c) The Group entered into a memorandum of understanding (the "Vision Products MOU") with Vision Products Limited ("Vision Products") on 20 June 2016, pursuant to which, the Group engaged Vision Products as a consultant to lead a project on the development of cultural business in different brands and icons that the Group believes which would further contribute to the value of the Group. Vision Products has the experience and track records of building up cultural products and design of branded products and icons for various multinationals which are very popular in Europe and other markets worldwide. Pursuant to the Vision Products MOU, the Group has made deposit of approximately HK$5,980,000 (the "Vision Deposit") to Vision Products for its exclusive development for themed business so as to achieve their objective and target, (i) the attraction of family-based target consumer group with exclusive procurement of cultural products; (ii) promotion of different themes to the Group; and (iii) the nurture for people and family-based audience to become aware of our brands, products and the Group.

The Group has further taken this opportunity to leverage the expertise of Vision Products to contribute to the Modified Renovation Plan of renovating the Guangzhou Properties for upgrading it with new edge concept and value enhancement in collaboration with 廣州市青年設計師協會 ("GZYDA") in contributing to the design conceptualisation into the Properties Improvement. To ensure the technical, engineering and construction requirement can be performed to express the design conceptualisation created by Vision Products and GZYDA, Vision Products would have to seek qualified engineering company to lead the Modified Renovation Plan for the Group's final decision and appointment.

However, in order to ensure the Group is having the financial strength and have specifically reserved the funding for such appointment of a well-qualified engineering company for the project, Vision Products has requested for a refundable deposit of approximately HK$49,520,000 (the "Escrow Amount") be escrowed for the specific purpose of construction cost involved in the renovation project so these contractors being approached by Vision Products would be comfortable and the necessary funding can be swiftly transferred to the selected contractor to fix the cost of the renovation upon the completion of the formal appointment with the selected contractor. The Group would then have a direct contractual relationship with the selected contractor being appointed.

As at 31 December 2017, the Escrow Amount was held by an independent contractor as deposit for project development of Guangzhon properties of the Group.

On 31 December 2017, the Group further entered into an agreement with Mr. Han, pursuant to which, Mr. Han further guarantees the recoverability of the Vision Deposit and the Escrow Amount.

As of the approval date on these consolidated financial statements, no formal agreement in relation to the Modified Renovation Plan has been entered.

(d) On 1 October 2017, 暢流, an indirect wholly-owned subsidiary of the Company, entered into a cooperation agreement (the "Cooperation Agreement") with 珠海市潤珠商貿有限公司 ("珠市潤珠"), a company established in the PRC and the beneficial owner of 珠海市柏林國際酒店 ("柏林酒店"), pursuant to which 暢流 has agreed to enter into a cooperation arrangement with 珠市潤珠 for leasing the hotel premises of 柏林酒店, at monthly rental of RMB131,000 (equivalent to approximately HK$157,000) for a period of 15 years from 1 October 2017 to 30 September 2032, with a rent-free period of six months from the date of the Cooperation Agreement in return to participate in the financial management function of 柏林酒店 and share 85% of its profits for a period from 1 October 2017 to 30 September 2032 (the "Cooperation"). Under the Cooperation Agreement, 暢流 is required to invest a fund amounting to RMB35,000,000 (equivalent to approximately HK$41,962,000) (the "Investment Fund") within 30 days from the date of the Cooperation Agreement, solely for the purposes of renovation, purchases of equipment and facilities for 柏林酒店.

The Cooperation Agreement was subsequently supplemented on 31 December 2017, to further elaborate the nature and function of the Investment Fund and attach additional conditions to the Cooperation. Pursuant to the Cooperation Agreement as supplemented, the parties therein agreed that (i) the amount of Investment Fund made by 暢流 would be regarded as an earnest money paid for the proposed Cooperation and subject to satisfaction of the conditions precedent including the average occupancy rate of 柏林酒店 would be reached 80% or above during the pilot run period from 1 January 2018 to 31 December 2018 ("Pilot Run Period"); and (ii) the Investment Fund would be repayable upon request together with interest of 8% accrued thereon in the event that the average occupancy rate of 柏林酒店 was below 80% during the Pilot Run Period.

The recoverability of the Investment Fund is guaranteed by Mr. Han, who is responsible for its collection pursuant to a guarantee agreement entered into between Mr. Han and the Company dated 23 March 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

23. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(e) On 10 July 2017, 暢揚, an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with 陳麒名 ("Mr. Chen"), an independent third party who owned 88% equity interest in 珠海市騰順實業有限公司 ("珠市騰順"), and 珠市騰順, a company established in the PRC and principally engaged in property development, pursuant to which 暢揚 has conditionally agreed to acquire and Mr. Chen has conditionally agreed to sell 70% equity interest of 珠市騰順 ("Equity Transfer") at a consideration of RMB2,100,000 (equivalent to approximately HK$2,518,000) ("Equity Consideration").

Under the Equity Transfer Agreement, 暢揚 paid a deposit amounted to RMB10,000,000 (equivalent to approximately HK$11,989,000) ("Deposit"), being RMB2,100,000 (equivalent to approximately HK$2,518,000) and RMB7,900,000 (equivalent to approximately HK$9,471,000) as Equity Consideration and advancement to 珠市騰順 ("Advancement").

The completion of the Equity Transfer is subject to the fulfillment of the conditions precedent including but not limited to 珠市騰順 has obtained (i) approval from the government authorities that enable 珠市騰順 to commence development work for its property development project, namely 珠海新金都 ("新金都 Project"); and (ii) the required licenses and certificates of the assets of 新金都 Project.

The recoverability of the Deposit is guaranteed by Mr. Han, who is responsible for its collection pursuant to a guarantee agreement entered into between Mr. Han and the Company dated 23 March 2018.

(f) The amount represented outstanding receivables from 北京中証房地產開發有限公司 ("北京中証", a former subsidiary of the Company which was disposed of in 2010) as a result of the following sequence of events.

The Company received a civil summons dated 15 May 2014 from the Higher People's Court of Beijing City (the "Higher Court"), pursuant to which, an application for retrial of a civil court case (the "Litigation") had been filed by 上海復旦光華信息科技股份有限公司 ("上海復旦"). The Litigation was stemmed from a series of civil court proceedings commenced by 上海復旦 in Beijing No. 1 Intermediate People's Court and the other courts in the PRC since 2003 which alleged that 北京中証 had failed to perform its obligation under a sale contract dated 27 June 2002 entered into between 北京中証 and 上海復旦 for selling certain real properties (the "Properties Transactions") in the PRC to 上海復旦 at a consideration of approximately US$1,755,000 (equivalent to approximately HK$13,716,000) (the "Allegation"). The Company became one of defendants as 上海復旦 claimed that Mr. Leung Kwo (梁戈) ("Mr. Leung"), a former director and chairman of the Company, entered into a guarantee agreement (the "Guarantee Agreement") with 上海復旦 on 28 June 2002 for and on behalf of the Company, pursuant to which, the Company acted as a guarantor to guarantee 上海復旦 that 北京中証 should perform its obligation under the Properties Transactions.

In view of the Litigation, the directors of the Company have conducted extensive investigations, in which the directors have (i) inspected all the minutes of the meetings of its board of directors from the date of its incorporation to the end of year 2013 to identify if the Allegation has ever been brought to the attention of the directors; (ii) contacted the key management personnel of 北京中証 for ascertaining the merits of the Allegation; (iii) discussed in their meeting to determine the financial impact of the Litigation and the Allegation; and (iv) sought for legal advices from the lawyers in the Cayman Islands and the PRC (collectively, the "Lawyers") in respect of the Litigation. From such investigations, the Company found that (i) there was no record showing that the Allegation has ever been brought to the attention of the directors and they did not approve and sign the Guarantee Agreement; and (ii) 北京中証 was aware of the Allegation and Litigation, but it has no records in respect of the sales of the Properties Transactions or the receipt of the sales proceeds as alleged in the Litigation.

On 29 July 2015, the Company received, through the Lawyer, the judgment dated 14 May 2015 (the "Judgment") granted by the Higher Court in respect of the Litigation, pursuant to which, the Higher Court overruled its own judgment dated 26 July 2013 and upheld the judgment dated 10 November 2010 granted by Beijing No. 1 Intermediate People's Court. The Higher Court ruled that both the Properties Transactions and the Guarantee Agreement were legally effective. The Higher Court also ordered that both the Company and 北京中証 shall be jointly liable to repay to 上海復旦 the sum of RMB14,529,886 (equivalent to approximately HK$17,420,000) together with interest accrued thereon from 1 July 2002 up to the date of payment (collectively, the "Judgment Debt") (which was preliminarily estimated by the directors to be approximately RMB27,660,000 (equivalent to approximately HK$33,162,000)).

On 30 November 2015, the Company entered into a subscription agreement (the "Subscription Agreement") with Mr. Zhu Ya Yong (朱亞勇) (the "Subscriber"), pursuant to which, the Subscriber agreed to negotiate with 上海復旦 for the entering into a debt settlement agreement between the Company, 上海復旦 and the Subscriber. It was intended that upon the completion of the debt settlement agreement, (i) the Company's obligation to repay the Judgment Debt will be assumed or satisfied by the Subscriber; and (ii) the Company will be indebted to the Subscriber for a sum of HK$33,606,830 which will be satisfied by way of the issuing of 136,060,042 shares of the Company at a subscription price of HK$0.247 per share.

23. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(f) (Continued)

Subsequently, 北京億隆悦泰投資有限公司 ("北京億隆"), a related company of the Subscriber) was nominated by the Subscriber for the negotiation with 上海復旦 and reached a settlement of the Judgment Debt at an aggregate amount of RMB27,000,000 (equivalent to approximately HK$32,370,000). Accordingly, the Company entered into a debt settlement agreement (執行和解協議) (the "Debt Settlement Agreement") with 上海復旦 and 北京億隆 on 9 December 2015, pursuant to which, the amount of the Judgment Debt was agreed at RMB27,000,000 (equivalent to approximately HK$32,370,000) which is interest-free, guaranteed and secured by a property of 北京億隆 (the "Yi Long Property") and (i) as to RMB3,000,000 (equivalent to approximately HK$3,597,000) payable at the date of signing of the Debt Settlement Agreement; and (ii) the remaining balance of RMB24,000,000 (equivalent to approximately HK$28,774,000) repayable by 4 quarterly installments on 31 March, 30 June, 30 September and 31 December 2016, respectively.

On 30 December 2015, the Company further entered into an agreement (關於執行和解協議之四方協議) (the "Four Parties Agreement") with the Subscriber, 北京億隆 and 北京創意金典投資諮詢服務有限公司 ("北京創意"), a company controlled by the Subscriber, pursuant to which, (i) the Subscriber undertakes the settlement of the Judgment Debt for the Company; (ii) 北京億隆 pledges the Yi Long Property to 上海復旦 as security against the Judgment Debt; and (iii) 北京創意 pays on behalf of the Subscriber RMB3,000,000 (equivalent to approximately HK$3,597,000) of the Judgement Debt. The directors are of the opinion that upon the entering of the Four Parties Agreement, the Company's obligation to repay the Judgment Debt has been assumed or satisfied by the Subscriber and therefore, the Company was indebted to the Subscriber in the sum of HK$33,606,830 which was satisfied by the issuing of 136,060,042 shares of the Company at a subscription price of HK$0.247 per share under the Subscription Agreement on 30 December 2015.

In view of the Litigation, the directors have taken appropriate actions to negotiate with 北京中証 for recovery of the Judgment Debt.

On 7 March 2016, the Company entered into an agreement (關於支付承諾款項之三方協議) (the "Debt Recovery Agreement") with 北京中証, pursuant to which, 北京中証 agreed to fully repay the Judgment Debt to the Company together with (i) an interest at 15% per annum; and (ii) a fixed fee of RMB5,000,000 (equivalent to approximately HK$5,995,000) as compensation (collectively, the "Recoverable Debt"). The Recoverable Debt shall be settled on or before 7 March 2018 and is guaranteed by 北京桑普新源技術有限公司 ("北京桑普"), an independent third party.

Subsequent to the reporting period, on 1 March 2018, the Company entered into a supplementary agreement (關於延期支付承諾款項之三方補充協議) (the "Debt Recovery Supplementary Agreement") with 北京中証 and 北京桑普 to further extend the settlement date of Recoverable Debt on or before 7 March 2020 by 北京中証 and 北京桑普 continues to be the guarantor of the Recoverable Debt.

The recoverability of the Recoverable Debt is also guaranteed by Mr. Han, who is responsible for its collection pursuant to a guarantee agreement entered into between Mr. Han and the Company dated 23 March 2018.

Based on above, the directors are of the view that the Recovery Debt will be fully recovered from 北京中証 and no indication of impairment existed at 31 December 2017.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

24. DUE FROM/TO A RELATED COMPANY, NON-CONTROLLING SHAREHOLDERS, RELATED PARTIES AND A DIRECTOR

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

Amount due from a related company disclosed pursuant to section 383(1)(d) to the Hong Kong Companies Ordinance is as follows:

	Maximum outstanding balance during the year HK$'000	**2017 HK$'000**	2016 HK$'000
New City (China)	11	**11**	8

Mr. Han, a director and the ultimate controlling party of the Company was also a director of New City (China).

25. CASH AND CASH EQUIVALENTS

	2017 HK$'000	2016 HK$'000
Cash and bank balances	**35,684**	40,045

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$34,761,000 (2016: HK$27,001,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day to three months, depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposits rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the bank balances and cash approximate their fair values.

26. ACCRUALS AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Accrued expenses	**5,415**	1,692
Other payables	**5,399**	1,454
Due to 北京誠達順逸商貿有限公司 ("北京誠達") *(note)*	**10,493**	9,726
	21,307	12,872

Note:

The amount due to 北京誠達, an independent third party and a former shareholder of 暢流, is unsecured, interest-free and repayable on demand.

27. FINANCE LEASE PAYABLE

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable				
– Within one year	**–**	103	**–**	101
– In the second year	**–**	–	**–**	–
Total minimum finance lease payments	**–**	103	**–**	101
Future finance charges	**–**	(2)		
Total net finance lease payables	**–**	101		
Portion classified as current liabilities	**–**	(101)		
Non-current portion	**–**	–		

The finance lease payable bears an effective interest rate of 3.5% per annum and is secured by the leased motor vehicle with a carrying value of approximately HK$92,000 (note 18) as at 31 December 2016.

The directors consider that the carrying amount of the finance lease payable approximates to its fair value as at the end of the reporting period.

During the year ended 31 December 2017, the outstanding amount of the Group's finance lease payables was fully settled.

Notes to the Consolidated Financial Statements

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28. INTEREST-BEARING BANK BORROWINGS, SECURED

	Effective interest rate	Maturity	2017 HK$'000	2016 HK$'000
Bank loan – Guangzhou loan *(note (a))*	5.94%	2020	–	200,034
Bank loan – Guangzhou loan *(note (b))*	6.71%	2027	**239,780**	–
			239,780	200,034
Analysed into:				
Repayable:				
– Within one year or on demand			**3,597**	3,334
– In the second to fifth years, inclusive			**59,945**	196,700
– Over five years			**176,238**	–
Total			**239,780**	200,034
Current portion			**(3,597)**	(3,334)
Non-current portion			**236,183**	196,700

Note:

(a) On 3 August 2015, 暢流 entered into a loan agreement (the "Loan Agreement 1") with Bank of Guangzhou ("BOGZ"), pursuant to which, BOGZ agreed to grant a loan (the "BOGZ Loan 1") in the amount of RMB180,000,000 (equivalent to approximately HK$200,034,000) to 暢流 for a term of 5 years, which was secured by legal charges over the Guangzhou Properties and personal guarantee provided by Mr. Han. The BOGZ Loan 1 bore interest at 125% of the benchmark annual lending and deposit rate of the People's Bank of China, which was repayable on a quarterly basis. The principal amount of the BOGZ Loan 1 was repayable by 8 instalments starting from February 2017 and to be matured in August 2020. The BOGZ Loan 1 was repaid on 7 July 2017.

(b) On 7 July 2017, 暢流 entered into another loan agreement (the "Loan Agreement 2") with BOGZ, pursuant to. which, BOGZ agreed to grant a loan (the "BOGZ Loan 2") in the amount of RMB200,000,000 (equivalent to approximately HK$239,780,000) to 暢流 for a term of 10 years, which is secured by legal charges over the Guangzhou Properties and personal guarantee provided by Mr. Han. The BOGZ Loan 2 bears interest at 137% of the benchmark annual lending and deposit rate of the People's Bank of China, which is repayable on a quarterly basis. The principal amount of the BOGZ Loan 2 is repayable by 20 instalments starting from January 2018 and will mature in July 2027.

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For the year ended 31 December 2017

29. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities are as follows:

	Fair value changes on the investment properties HK$'000
At 1 January 2016	156,085
Charged to the profit or loss for the year *(note 12)*	303
Exchange realignment	(8,625)
At 31 December 2016 and 1 January 2017	**147,763**
Credit to profit or loss for the year *(note 12)*	**(300)**
Exchange realignment	**11,648**
At 31 December 2017	**159,111**

The above deferred tax liabilities represented taxable temporary differences arising from the fair value changes on the investment properties calculated at the rate of 25% during the year ended 31 December 2017. (2016: 25%)

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB38,726,000 (equivalent to approximately HK$46,429,000) (2016: RMB32,594,000 (equivalent to approximately HK$36,222,000)). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. SHARE CAPITAL

	2017 HK$'000	2016 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.004 each	**40,000**	40,000
Issued and fully paid:		
3,317,045,040 ordinary shares of HK$0.004 each	**13,268**	13,268

A summary of movements in the Company's share capital is as follows:

	No. of Shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	**3,317,045,040**	**13,268**	**457,758**	**471,026**

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 46 of the consolidated financial statements.

Nature and purpose of reserves

(a) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

(b) Contributed surplus

Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the reorganisation.

(c) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(t) to the consolidated financial statements.

31. RESERVES (CONTINUED)

(d) Statutory reserve

In accordance with the PRC Company Law and the Group's PRC subsidiaries' articles of association, the Group's PRC subsidiaries are required to allocate 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to PRC companies to the statutory reserve until such reserve reaches 50% of the registered capital. The appropriation to the reserve must be made before any distribution of dividends to equity holders. The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as paid-in capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the paid-in capital of the Group's subsidiaries.

32. STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
Non-current assets		
Investments in subsidiaries	**34,481**	34,481
Prepayments, deposits and other receivables	**103,116**	55,500
	137,597	89,981
Current assets		
Equity investment at fair value through profit or loss	**57,906**	37,628
Prepayments, deposits and other receivables	**519**	37,415
Due from subsidiaries	**207,916**	214,988
Cash and bank balances	**62**	63
	266,403	290,094
Current liabilities		
Accruals and other payables	**1,765**	1,148
Due to subsidiaries	**87,236**	87,236
Due to a director	**1,560**	1,440
	90,561	89,824
Net current assets	**175,842**	200,270
Net assets	**313,439**	290,251

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

32. STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY (CONTINUED)

(a) Statement of financial position of the Company (Continued)

	2017 HK$'000	2016 HK$'000
Equity		
Share capital	**13,268**	13,268
Reserves *(note 32(b))*	**300,171**	276,983
Total equity	**313,439**	290,251

Approved and authorised for issue by the Board of Directors on 27 March 2018.

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Han Junran *Director*

Seto Man Fai *Director*

(b) Reserves movement of the Company

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

	Share premium account HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	457,758	306,450	(475,305)	288,903
Loss and total comprehensive income for the year	–	–	(11,920)	(11,920)
At 31 December 2016 and 1 January 2017	**457,758**	**306,450**	**(487,225)**	**276,983**
Profit and total comprehensive income for the year	**–**	**–**	**23,188**	**23,188**
At 31 December 2017	**457,758**	**306,450**	**(464,037)**	**300,171**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

33. CONTINGENT LIABILITIES

Save as those disclosed in note 19(b) to the consolidated financial statements, the Group did not have any material contingent liabilities as at 31 December 2017 and 2016.

34. RELATED PARTY TRANSACTIONS

(a) Save as those disclosed elsewhere in these consolidation financial statements, the Group had the following material transactions with related/connected companies during the year:

	2017 HK$'000	2016 HK$'000
Rental expenses paid to related/connected companies	**1,542**	1,542

(b) Compensation of key management personnel of the Group:

	2017 HK$'000	2016 HK$'000
Short term employee benefits	**5,695**	5,731
Post-employment benefits	**–**	–
Equity-settled share option expenses	**–**	–
Total compensation paid to key management personnel	**5,695**	5,731

Further details of directors' and the chief executive's emoluments are set out in note 14 to the consolidated financial statements.

The number of directors, chief executive and key management personnel of the Group, whose remuneration/compensation fell within the following bands is as follows:

	2017	2016
Nil to HK$1,000,000	**8**	8
HK$1,000,001 to HK$2,000,000	**2**	2
HK$2,000,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$10,000,000	**–**	–
Over HK$10,000,000	**–**	–
	10	10

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For the year ended 31 December 2017

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases the Guangzhou Properties (note 19 (a)) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years (2016: for a term of 1 to 5 years).

At 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**24,771**	18,479
In the second to fifth years, inclusive	**21,221**	19,541
	45,992	38,020

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 4 years (2016: 1 to 2 years).

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**808**	1,563
In the second to fifth years, inclusive	**371**	702
	1,179	2,265

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

36. OTHER COMMITMENTS

In addition to the operating lease commitments detailed in note 35 to the consolidated financial statements, the Group had the following commitments at the end of the reporting period:

(a) Capital injection

On 12 July 2014, the Company entered into a letter of intent for co-operation with an independent third party (the "Partner"), pursuant to which, a Hong Kong company, New City Fortune Medicare Group Limited ("NC Fortune Medicare") was incorporated, of which, 34% equity interest in NC Fortune Medicare was held by the Group. NC Fortune Medicare will then set up a wholly-owned subsidiary in Shanghai (the "Shanghai Subsidiary") for the development of medicare business in various cities in the PRC. The registered capital of the Shanghai Subsidiary will be RMB1,000,000 (equivalent to approximately HK$1,199,000), which shall be financed by all the shareholders of NC Fortune Medicare in proportion to their respective shareholdings therein. The Shanghai Subsidiary has not been established as at the date of approving these consolidated financial statements. As at 31 December 2017, none of the RMB340,000 (equivalent to approximately HK$408,000), being the contribution by the Group, has been injected by the Company to the Shanghai Subsidiary through NC Fortune Medicare.

(b) Capital commitment

	2017 **HK$'000**	2016 HK$'000
Construction design contracts for the Luoyang Properties *(note 23 (a))*	**11,525**	10,824
Renovation and improvement costs for the Guangzhou Properties *(note 23 (b))*	**3,000**	192,689
	14,525	203,513

37. EVENTS AFTER THE REPORTING PERIOD

(a) Proposed issue of convertible bonds

On 9 February 2018, the Company and Red Swan Capital Management Limited (the "Subscriber") entered into a subscription agreement ("Subscription Agreement") pursuant to which the Subscriber has agreed to subscribe for the convertible bonds ("CBs") in the aggregate principal amount of HK$30,000,000 ("Subscription") to be issued by the Company. The CBs holder is entitled to exercise the CBs in full at a conversion price of HK$0.2566 per share of the Company.

The completion of the Subscription is conditional upon satisfaction of the conditions precedent as set out in the Subscription Agreement.

As of the approval date on these consolidated financial statements, the proposed Subscription is under progress and not yet completed. Details are disclosed in the Company's announcement dated 9 February 2018.

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For the year ended 31 December 2017

37. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(b) Memorandum of cooperation

On 14 February 2018, the Company entered into a memorandum of cooperation ("Memorandum of Cooperation") with Zhongfang United Investment Group Health Industry Investment Co., Ltd. (the "Vendor"), being a holder of Guangdong Xizhou Education Co., Ltd. (the "Target Company") as to not less than 70%, and the Target Company, in relation to the possible acquisition of not less than 70% of the equity interest of the Target Company (the "Possible Acquisition").

To the best of the knowledge, information and belief of the board of directors of the Company after having made all reasonable enquiries, the Vendor and the Target Company are third parties independent of the Company and its connected persons (as defined in the Listing Rules). Pursuant to the Memorandum of Cooperation, the Company intends to acquire not less than 70% of the equity interest of the Target Company by way of acquiring the equity interest of the Target Company from the Vendor.

The consideration for the Possible Acquisition (the "Consideration") has not yet been determined and shall be subject to the formal agreement, and it shall be determined in accordance with the results of negotiations conducted between the Company and the Vendor based on the situation of the Target Company. The Company may also consider engaging an independent professional valuer to assess the fair value of the Target Company for reference when determining the Consideration. The Company intends to pay the Consideration by way of cash and issuance of the Company's shares.

As of the approval date on these consolidated financial statements, no formal agreement in relation to the Proposed Acquisition has been entered. Details are disclosed in the Company's announcement dated 14 February 2018.

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

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

31 December 2017

	1 January 2017 HK$'000	Cash flows HK$'000	Interest expenses/ finance lease charges HK$'000	Exchange realignment HK$'000	31 December 2017 HK$'000
Finance lease payable	101	(103)	2	–	–
Interest-bearing bank borrowings, secured	200,034	14,226	13,950	11,570	239,780
Due to non-controlling shareholders	4,710	738	–	372	5,820
Due to related parties	609	(41)	–	44	612
	205,454	14,820	13,952	11,986	246,212

39. SUBSIDIARIES

The following table shows information on the subsidiary that has non-controlling interests material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	洛陽萬亨	
	2017	2016
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC
% of ownership interests/voting rights held by non-controlling interests	**10%/10%**	10%/10%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**45,457**	42,132
Current assets	**17**	1
Current liabilities	**(40,438)**	(36,728)
Net assets	**5,036**	5,405
Accumulated non-controlling interests	**504**	541
Year ended 31 December:		
Revenue	**–**	–
Loss for the year	**(771)**	(1)
Total comprehensive income	**(771)**	(1)
Loss allocated to non-controlling interests	**(77)**	–
Net cash generated from operating activities	**5**	1
Net increase in cash and cash equivalents	**5**	1

At the end of the reporting period, the cash and bank balances of the Group's subsidiaries denominated in RMB amounted to approximately HK$34,589,000 (2016: HK$26,823,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

40. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are approved and authorised for issue by the Board of Directors on 27 March 2018.

Five Year Financial Summary

31 December 2017

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK'000	HK$'000
REVENUE	**39,076**	34,982	39,064	43,808	51,504
Cost of services provided	**(3,124)**	(3,116)	(3,358)	(3,943)	(3,656)
Gross profit	**35,952**	31,866	35,706	39,865	47,848
Other income	**31,697**	8,757	14,280	41,900	150,321
Administrative and other operating expenses	**(27,594)**	(24,973)	(25,194)	(21,900)	(20,800)
Finance costs	**(13,952)**	(12,721)	(15,998)	(12,854)	(14,375)
PROFIT BEFORE TAX	**(26,103)**	2,929	8,794	47,011	162,994
Income tax expense	**(3,093)**	(1,710)	(5,079)	(14,047)	(40,288)
PROFIT FOR THE YEAR	**(23,010)**	1,219	3,715	32,964	122,706
Profit for the year attributable to:					
Owners of the Company	**23,274**	1,294	3,715	32,946	122,706
Non-controlling interests	**(264)**	(75)	–	–	–
	23,010	1,219	3,715	32,946	122,706

ASSETS AND LIABILITIES

	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK'000	HK$'000
TOTAL ASSETS	**1,104,147**	980,331	1,114,443	774,665	763,858
TOTAL LIABILITIES	**(440,410)**	(376,638)	(485,011)	(332,218)	(344,607)
NON-CONTROLLING INTERESTS	**(438)**	(435)	(553)	–	–
	663,299	603,258	628,879	442,447	419,251