CAPITAL GRAND

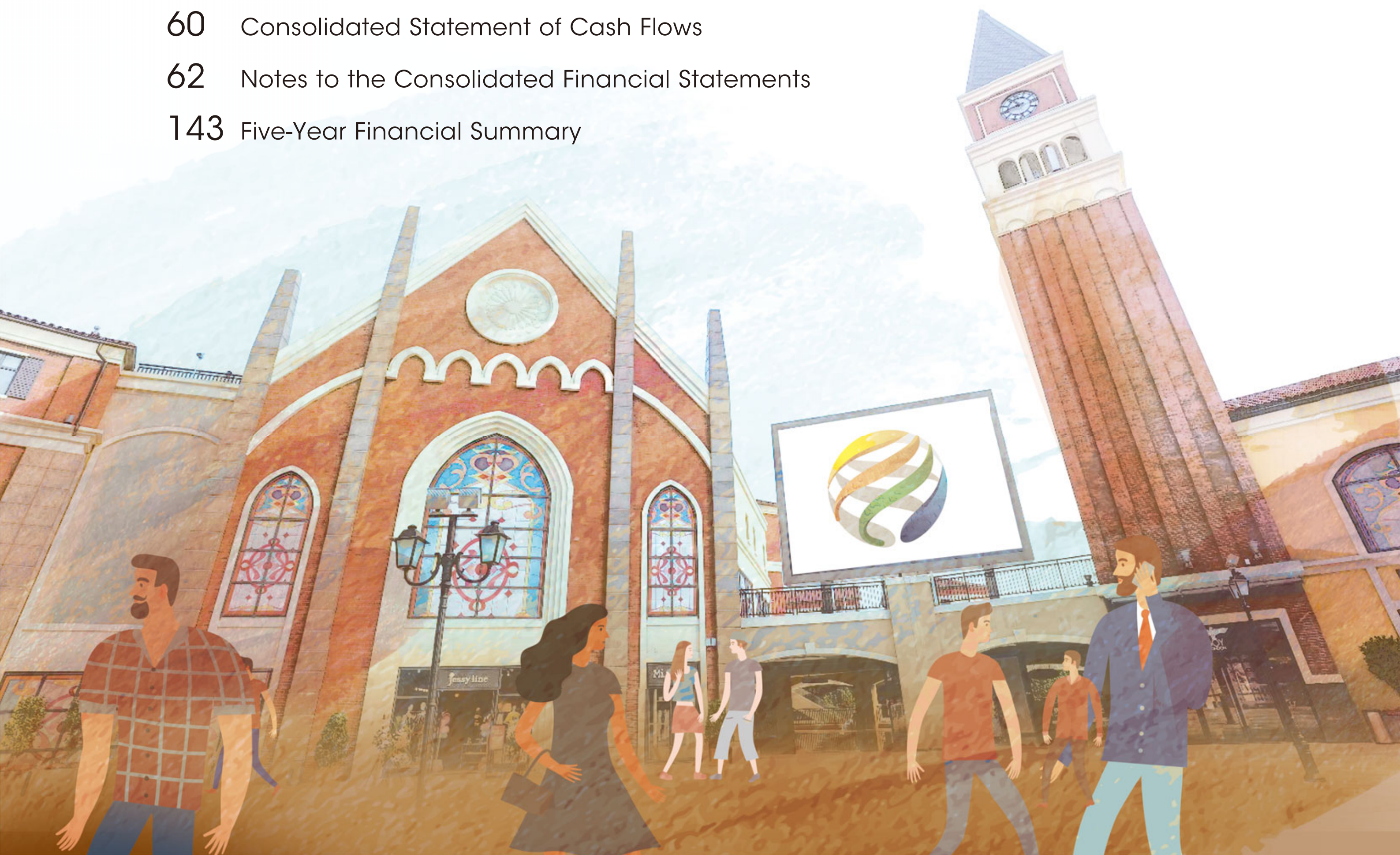
Annual Report 2018

BEIJING CAPITAL GRAND LIMITED
首創鉅大有限公司

Incorporated in the Cayman Islands with limited liability

STOCK CODE : **1329**

Contents



Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhong Beichen *(Chairman)*
Mr. Feng Yujian *(Chief Executive Officer)*

NON-EXECUTIVE DIRECTORS

Mr. Wang Hao
Ms. Qin Yi
Mr. Wang Honghui
Mr. Yang, Paul Chunyao

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung
Ms. Zhao Yuhong
Mr. He Xiaofeng

AUDIT COMMITTEE

Dr. Ngai Wai Fung *(Chairman)*
Ms. Zhao Yuhong
Mr. He Xiaofeng

REMUNERATION COMMITTEE

Ms. Zhao Yuhong *(Chairman)*
Ms. Qin Yi
Mr. Yang, Paul Chunyao
Dr. Ngai Wai Fung
Mr. He Xiaofeng

NOMINATION COMMITTEE

Mr. Zhong Beichen *(Chairman)*
Mr. Wang Honghui
Dr. Ngai Wai Fung
Ms. Zhao Yuhong
Mr. He Xiaofeng

STRATEGIC INVESTMENT COMMITTEE

Mr. Feng Yujian *(Chairman)*
Mr. Wang Hao
Mr. Wang Honghui
Mr. Yang, Paul Chunyao
Mr. He Xiaofeng

SECRETARY OF THE BOARD OF DIRECTORS

Ms. Wang Xia

COMPANY SECRETARY

Mr. Lee Sze Wai

AUTHORIZED REPRESENTATIVES

Mr. Feng Yujian
Mr. Lee Sze Wai

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

AS TO HONG KONG LAWS:

Norton Rose Fulbright Hong Kong

AS TO CAYMAN ISLANDS LAWS:

Conyers Dill & Pearman

Corporate Information

AS TO PRC LAWS:
Beijing Jingtian & Gongcheng

REGISTERED OFFICE
Cricket Square Hutchins Drive P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRC HEADQUARTERS
Building 18, No. 6 Langjiayuan
Tonghuihe North Road, Chaoyang District
Beijing, China

HONG KONG OFFICE
Suites 4602-05,
One Exchange Square, Central,
Hong Kong

PRINCIPAL BANKERS
China Construction Bank
China Merchants Bank
Bank of Communications
Bank of Beijing
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
Dah Sing Bank Limited

CORPORATE WEBSITES
www.bcgrand.com
www.capitaloutlets.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Conyers Trust Company (Cayman) Limited
Cricket Square Hutchins Drive P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22 Hopewell Centre
183 Queen's Road East, Hong Kong

LISTING INFORMATION
EQUITY SECURITY LISTED ON THE STOCK EXCHANGE OF HONG KONG
Ordinary Shares (1329.HK)

DEBT SECURITY LISTED ON THE STOCK EXCHANGE OF HONG KONG
US$400,000,000 guaranteed notes due 2021 at floating rates (5133.HK)

INVESTOR RELATIONS CONTACT
Email: contactus@bcgrand.com

鉅MAX
首創鉅大有限公司
Beijing Capital Grand Limited

鉅宝汇
PRIVILEGE VIP

Major Events of the Year

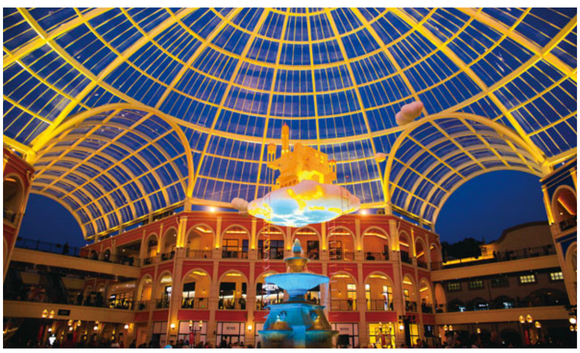
Wuhan Capital Outlets

JAN

- Wuhan Capital Outlets commenced trial operation
- Beijing and Wanning stores were listed in Top 20 China Outlets in terms of sales in 2017

FEB

- Beijing Capital Outlets won the award "Top 10 Commercial Brands of Beijing"



Hangzhou Capital Outlets

MAR

- Won seven major awards conferred by China Outlets Industry Association (中國奧萊行業協會)

Major Events of the Year

Nanchang Capital Outlets

APR

- Awarded the "Outstanding Commercial Property Firm" issued by the CCREA
- Hosted the "New Outlets Knows No Boundaries——鉅MAX Brand Sharing Forum"
- "Capital Outlets, Run for Fun", Mass Road-Run National Series held by Olympic Sports Center, kicked off in Hefei
- Invited as China outlets industry representative to attend RECON China (全球商業地產中國大會)
- Wuhan Capital Outlets grand opening

Beijing Capital Outlets

MAY

- Beijing Capital Outlets celebrated its fifth anniversary, with record sales of RMB70 million in three days
- Successfully bid for commercial land in Qingdao National High-tech Industrial Development Zone, marking Capital Outlets' entry into the city

Major Events of the Year

Wanning Capital Outlets

JUN

- Beijing Capital Outlets won the "Golden Lily Best Marketing Award for Shopping Centers" (金百合購物中心最佳營銷獎) conferred by China Chain Store & Franchise Association (CCFA)

Huzhou Capital Outlets

JUL

- Successfully bid for commercial land in Xingning District of Nanning, marking Capital Outlets' entry into the city


Kunshan Capital Outlets

AUG

- Successfully issued US$400,000,000 guaranteed notes due 2021 at floating rates

Major Events of the Year

Hefei Capital Outlets

SEP

- Signed a strategic cooperation agreement with Luneng Group, making the successful export of management expertise of Luneng Dalian Jinshitan project
- Hefei Capital Outlets grand opening

Jinan Capital Outlets

NOV

- Obtained the "2018 Influential Commercial Property Firm in China" award conferred by Guandian Property (觀點地產)
- Recorded total online and offline sales of RMB150 million in 11 November Shopping Festival

Zhengzhou Capital Outlets

DEC

- Successfully bid commercial land in Xiang'an District of Xiamen, marking Capital Outlets' entry into the city
- Zhengzhou Capital Outlets grand opening
- Capital Grand was approved for its shelf offering on outlets asset backed securitization scheme by the amount of RMB10 billion, the first of its kind domestically

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Beijing Capital Grand Limited ("Capital Grand" or the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2018.

Since 2018, the global economic growth has been on a trend of slowdown, with China shifting from high-speed growth to high-quality development. The country's gross domestic product (GDP) amounted to RMB90.03 trillion, representing a year-on-year increase of 6.6% on the basis of comparable prices. Given the stability and progress of national economic operation, China continued to work steadily towards its goal of building a moderately prosperous society in all respects. As work took place to enhance the proactive fiscal policy and deliver higher efficiency, the country has witnessed an increasingly prominent effect of its tax cuts and fees reduction, a further increase in resident disposable income and the growing willingness to spend among residents. With continuous progress in the supply-side structural reform and intensive implementation of its innovation-driven development strategy, China will continuously unleash the vitality of consumption innovation. Coupled with the consumption structural upgrade and the boost in brand awareness among consumers, there has been continuous growth in the scale of outlets sales domestically.

Consistently committed to its strategy of "Aligning Construction with Shop-opening" during the period, the Group extended its presence to three new target cities, namely Qingdao, Nanning and Xiamen, achieved management expertise export to the Dalian project, and further broadened its strategic coverage to hotspot cities in Southern and Northern China. On a cumulative basis, the Group has held and managed 17 outlets projects, further strengthening its leadership in scale.

In tandem with robust expansion, the Group has enhanced the effect of its platform by sorting out and optimizing such standardized business processes in relation to construction, operation and internal functions, to ensure seamless connection of all project development phases and achieve quality commencement of business. Results have improved steadily for the six operating stores located in Beijing, Wanning, Kunshan, Huzhou, Hangzhou and Nanchang respectively, with a year-on-year increase in turnover exceeding 43%. Three new stores in Wuhan, Hefei and Zhengzhou staged their quality grand opening on schedule, registering exceptional consumer visits and sales during their operation period. In particular, the Beijing store rolled out innovative marketing initiatives continuously, in order to build a landscaped outlets through themed decoration from time to time, building up a distinctive model for consumption experience featuring "Customer Flow plus Content", all in a bid to bolster project popularity and influence. As a result, the sales of the store kept reaching record new highs. Monthly sales of the project exceeded RMB100 million, with close to RMB70 million in revenue from the three-day store anniversary celebration for the Labor Day Holiday, nearly RMB300 million in sales for October alone, and a consistently refreshed record of historical sales. In addition, the store captured the grand award "Outstanding Contribution to Business in Beijing for the Fortieth Anniversary of the Reform and Opening Up" (改革開放四十年北京商業卓越貢獻獎).

For the period under review, the Group recorded operating revenue of RMB1,224,040,000, representing an increase of 139% over the same period of last year; and net loss attributable to the owners of the Company amounted to RMB197,698,000, representing a decline of 275% over the same period of last year. Such decline was mainly attributable to the fact that the Group's outlets business was currently at its early stage with new projects opening each year, causing a substantial increase in marketing and promotion expenses, as well a finance expenses. The Board resolved not to declare a dividend for the year ended 31 December 2018.

During the period, by virtue of superior shareholders' background, premium and sufficient commercial asset reserves and superb business operation capability, the Group was agile in seizing opportunities under favorable policies and managed a major innovation breakthrough in shelf offering on outlets asset backed securitization scheme. Specifically, the Group obtained the opportunity to conduct the first domestic shelf offering under a special scheme backed by commercial property assets worth RMB10 billion. The move has secured a favorable strategic position for the Company in the domestic capital market, introduced a fresh type of underlying assets to the financial products of asset backed securitization in domestic exchanges, and laid a good foundation for efficiently connecting the assets of Capital Outlets with public REITs in the future. Meanwhile, by fully utilizing its advantageous resources, the Group has effectively expanded the business lines of its investment properties, and worked on the real estate re-development business in Beijing and Shanghai with good locations. By doing so, the Group seeks to develop an excellent team capable of deep processing for properties and thereby realizes its strategic transformation and upgrades from a "developer and operator" to a "major asset management platform" step by step.

Looking into 2019, consumer retail will embrace even greater industrial reforms and iterations. For outlets operators and other players of the retail sector to secure trade opportunities, maintain robust business growth and attain sustainable development, the key is to find out how to drive, retain and convert customer traffic with better content, identify and accumulate consumer data assets, connect, reach, interact with and influence consumers, and continuously create real value for consumers and brand owners. The Group will continue to tap into the merits of online-offline channel integration in a practical manner. In an effort to enhance digital transformation and development, digitization and intelligence will be boosted comprehensively across all aspects of business operations, with an omni-channel digital platform established that covers the entire supply chain. Such a platform is designed to empower the management of goods and members, satisfy personalized consumer demand for experiential, interactive, selective and professional service, offer more value-added services to brand owners and set a new retail benchmark for the outlets industry.

On behalf of the Board, I would like to extend my sincere gratitude to all shareholders, partners and clients for their care and strong support to Capital Grand. We will regard digital innovation as a point for breakthrough and leverage intelligent operation to gain insights into consumer demand, offer customized products and services with lower costs, higher efficiency and greater experience, and continuously create value for our shareholders, clients and partners.

Mr. Zhong Beichen
Chairman

Beijing, 6 March 2019

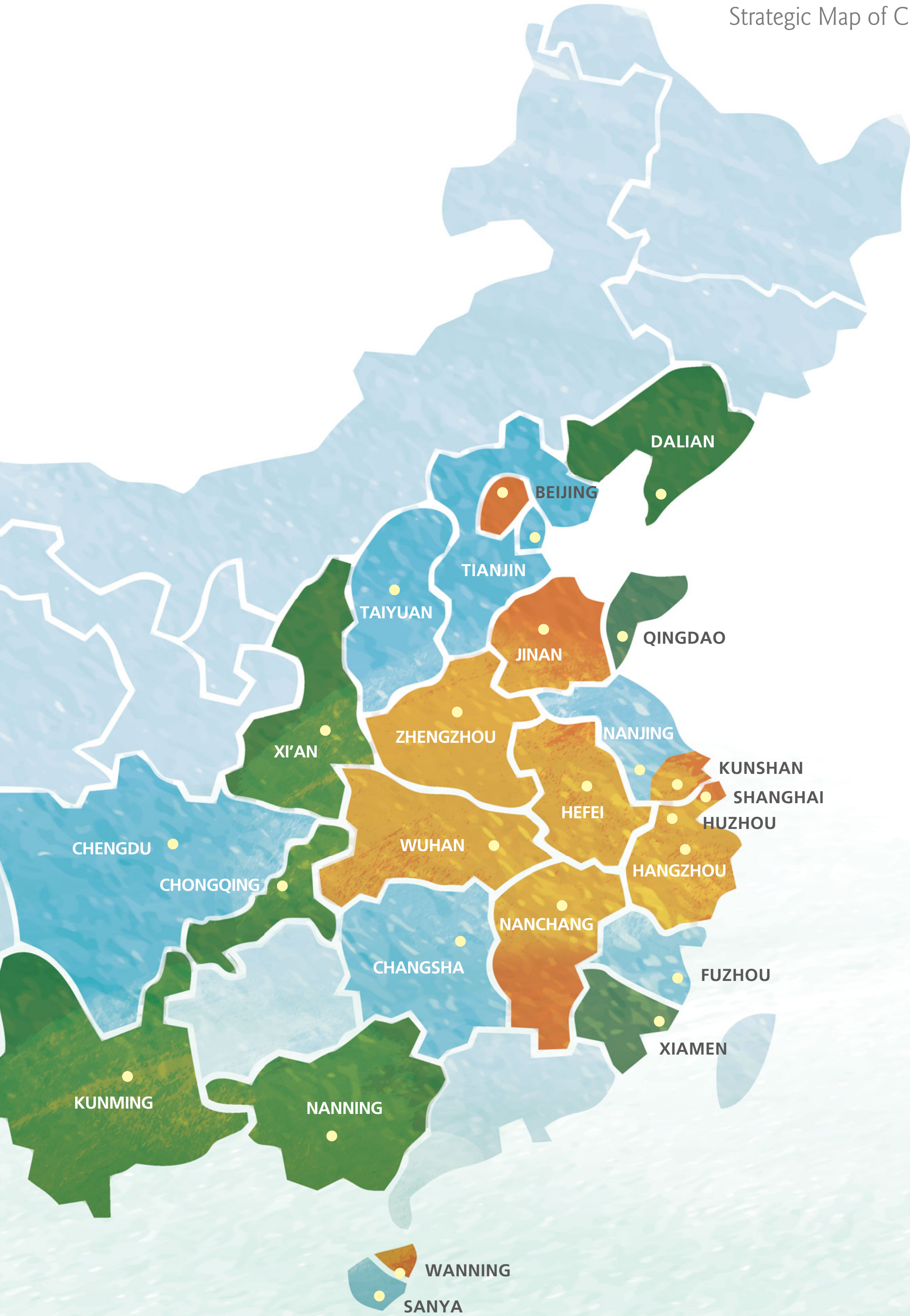
Strategic Map of Capital Grand

OPENED

UNDER CONSTRUCTION

PLANNING

Strategic Map of Capital Grand



Management Discussion and Analysis

INVESTMENT PROPERTIES

Project	Approximate Site Area (m^2) (Note 1)	Total Gross Floor Area (m^2) (Note 2)	Property Type (m^2)	Expected Time of Launching	Attributable Interest
Beijing Capital Outlets (Changyang Town, Fangshan District, Beijing)	90,770 (Note 3)	108,720	Outlets: 104,340 Parking Space: 4,380	2013	100%
	90,770 (Note 3)	87,770	Outlets: 39,540 Supermarket: 3,260 Parking Space: 44,970	2019	100%
Kunshan Capital Outlets (Kunshan Development Zone)	46,240	50,420	Outlets: 50,420	2015	100%
	46,790	50,110	Outlets: 50,110	2017	100%
Huzhou Capital Outlets (Huzhou Taihu Lake Tourism Resort) (Note 4)	109,940	54,700	Outlets: 54,700	2013	100%
Nanchang Capital Outlets (Xinjian District, Nanchang)	56,830	129,700	Outlets: 85,240 Parking Space: 44,460	2017	100%
	30,150 (Note 5)	28,370	Cinema: 4,990 Supermarket: 7,660 Parking Space: 15,720	2019	40%
Hangzhou Capital Outlets (Fuyang District, Hangzhou)	101,690	112,280	Outlets: 88,980 Parking Space: 23,300	2017	100%
Wuhan Capital Outlets (Wuhan East Lake High-tech Development Zone)	89,760	107,560	Outlets: 83,740 Parking Space: 23,820	2018	99%
Changsha Capital Outlets Joyous Sky Avenue (Xiangjiang New Area, Changsha) (Note 6)	54,600	112,070	Outlets: 81,550 Parking Space: 30,520	2019	30%

INVESTMENT PROPERTIES (CONTINUED)

Project	Approximate Site Area (m^2) *(Note 1)*	Total Gross Floor Area (m^2) *(Note 2)*	Property Type (m^2)	Expected Time of Launching	Attributable Interest
Xi'an Capital Outlets (Xi'an Hi-tech Industrial Development Zone)	119,650	118,840	Outlets: 83,040 Parking Space: 35,800	2019	100%
Zhengzhou Capital Outlets (Xingyang City, Zhengzhou)	80,860	96,580	Outlets: 81,070 Parking Space: 15,510	2018	100%
Jinan Capital Outlets (Tangye New Area, Jinan)	114,930 *(Note 7)*	121,520	Outlets: 76,990 Parking Space: 44,530	2019	100%
Hefei Capital Outlets (Binhu New District, Hefei)	87,910	96,270	Outlets: 75,230 Parking Space: 21,040	2018	100%
Chongqing Capital Outlets (Banan District, Chongqing)	74,350 *(Note 8)*	110,560	Outlets: 79,110 Parking Space: 31,450	2019	100%
Kunming Capital Outlets (Wuhua District, Kunming)	67,920	136,040	Outlets: 86,010 Parking Space: 50,030	2020	85%
Qingdao Capital Outlets (Qingdao High-tech Zone)	93,970	97,130	Outlets: 79,680 Parking Space: 17,450	2021	100%
Nanning Capital Outlets (Xingning District, Nanning)	101,970	137,800	Outlets: 109,350 Parking Space: 28,450	2021	100%
Xiamen Capital Outlets (Xiang'an District, Xiamen)	55,660	128,480	Outlets: 90,480 Parking Space: 38,000	2021	100%

DEVELOPMENT PROPERTIES

Project	Approximate Site Area *(m²)*	Unsold Gross Floor Area *(m²)*	Unsold Land Floor Area *(m²)*	Property Type	Attributable Interest
Xi'an First City (Xi'an Economic Technology Development Zone)	355,900	401,510	251,180	Residential/ Commercial/ Office Buildings	100%
Nanchang Capital Outlets (Xinjian District, Nanchang)	30,150*(Note 5)*	24,800	24,800	Commercial	40%
Jinan Capital Outlets (Tangye New Area, Jinan)	114,930*(Note 7)*	830	830	Commercial	100%
Chongqing Capital Outlets (Banan District, Chongqing)	74,350*(Note 8)*	9,947	9,947	Commercial	100%
Nanning Capital Outlets (Xingning District, Nanning)	101,970*(Note 9)*	15,300	15,300	Commercial	100%

Note 1: Approximate site area is based on State-owned Construction Land Use Right Grant Contract or Land Use Right Certificates;

Note 2: Total gross floor area is based on State-owned Construction Land Use Right Grant Contract and the latest project design plan;

Note 3: The site area of Beijing Capital Outlets is 90,800 m², of which the gross floor areas of Phase I and Phase II are 108,700 m² and 87,800 m², respectively;

Note 4: The total site area of Huzhou Capital Outlets is 214,300 m², of which the site area of Phase I and Phase II are 109,900 m² and 104,400 m², respectively;

Note 5: The site area of Nanchang Capital Outlets Plot B is 30,200 m², of which 29,700 m² of the gross floor area is investment property and 31,300 m² is development property;

Note 6: On 8 January 2019, Shanghai Juque Investment Management Limited (上海鉅礐投資管理有限公司) ("Shanghai Juque"), a subsidiary of the Group, entered into an equity exchange contract with the purchaser to dispose of the entire 30% equity interests in the Changsha Capital Outlets Joyous Sky Avenue project held by Shanghai Juque, at a consideration of RMB74,841,000;

Note 7: The site area of Jinan Capital Outlets is 114,900 m², of which 121,500 m² of the gross floor area is investment property and 63,000 m² is development property;

Note 8: The site area of Chongqing Capital Outlets is 74,400 m², of which 110,600 m² of the gross floor area is investment property and 17,400 m² is development property;

Note 9: The site area of Nanning Capital Outlets is 102,000 m², of which 137,800 m² of the gross floor area is investment property and 15,300 m² is development property.

MARKET REVIEW OF OUTLETS

In 2018, China made steady progress with its national economy, while the consumer market environment was characterized by constant consumption upgrade, stronger willingness to spend and the rise of new consumer groups. According to the data published by the National Bureau of Statistics, the country recorded year-on-year increases of 6.6% and 9.0% in GDP and total retail sales of consumer goods, respectively, in 2018. Consumer demand remained the key driving force of economic growth. Leading industry players tended to empower themselves with retail technology, working intensively on refined store operation and online-offline resources integration. They also sped up digital transformation and change and revisited the nature of retail. Against the background of industrial recovery, their performance improved markedly, with year-on-year increases of 6.8%, 3.2%, 6.2% and 1.8% in the retail sales of supermarkets, department stores, specialty stores and boutiques, respectively.

In 2018, the domestic outlets industry experienced high-speed growth in its scale of operation. According to latest statistics from industry think tanks, the annual sales of the top-20 industry players totaled approximately RMB51 billion, which represented a year-on-year increase of 25%. 20 new projects were launched during the year, as for the type of operations, the dominance of traditional retail forms has gradually given way to a mix of distinctive outlets operations that stress on consumer experience. Actively embracing the changes in retail environment, outlets operators have resorted to omni-channel and digital transformation, using information technology and big-data analysis to optimize the plans of the operation management. A scene-based upgrade has been completed on the three retail factors, namely "people, commodities and sites" to enhance the consumption experience and lead the iteration and upgrading of consumer lifestyle in an innovative fashion. Industry leaders have commenced proactive mergers and acquisitions as well as collaborative operation, with a systematic approach to provide asset management services. Leveraging on sound underlying assets and outstanding business operation capability, some of the professional outlets operators have managed to realize asset securitization, striving to build a closed-loop business in the form of "invest-finance-operate-exit" and enable "resources, assets and capital" to reinforce and complement each other.

BUSINESS REVIEW

BALANCING HEAVY AND LIGHT ASSETS MODELS AND ESTABLISHING A SYNERGETIC LAYOUT ACROSS THE COUNTRY

– During the period, the Group developed new projects in Qingdao, Nanning and Xiamen, and signed entrusted management agreement on Dalian project. On a cumulative basis, the Group has held and managed 17 outlets projects, further consolidating its leading edge in the industry with a synergetic layout taking shape

LAUNCHING MULTIPLE NEW STORES AND AMPLIFYING THE SCALE EFFECT THROUGH SYSTEMATIC EXPANSION

– During the period, the Group enhanced the effect of its platform by continuously standardizing various processes including project development and construction, leasing and commencement of operation, to ensure seamless connection of these processes, lift work efficiency in both the headquarters and frontline companies, and achieve quality commencement of business

– On 29 April 2018, Wuhan Capital Outlets staged its grand opening, recording over 200,000 customer visits and RMB25.70 million in sales for the first three days

– On 22 September 2018, Hefei Capital Outlets staged its grand opening, recording over 300,000 customer visits and more than RMB31 million in sales for the first three days

– On 23 December 2018, Zhengzhou Capital Outlets staged its grand opening, with fervent customer visits and an excess of RMB10 million in sales on the first day

DELIVERING STEADY GROWTH IN OPERATING RESULTS THROUGH COST REDUCTION AND EFFICIENCY ENHANCEMENT

– During the period, the operating outlets stores recorded a turnover of over RMB5.1 billion, representing a year-on-year growth of 58%. Customer traffic amounted to 31.20 million for the year, representing a year-on-year growth of 23%, with steady improvement in operating results

– Leveraging on its advantageous chain operation, the Group took steps to work with marketing service providers through centralized purchase, conduct synchronized marketing for the Group's projects in multiple cities, and comprehensively promote omni-channel development, with the integration of innovative technology into marketing initiatives to gradually realize precision marketing and enhance cost efficiency in a practical manner

– Property management went through more intense and frequent inspections. Feasible energy-saving plans were prepared, taking into account the characteristics of the region where a project was operated, coupled with regular energy consumption analyses and inspections to oversee the implementation of such energy-saving measures for projects. Furthermore, the property management services from external providers were under strengthened monitoring and assessment to ensure that every project had its expenditure on property management fees controlled within the annual budget

ACCELERATING THE RAMPING-UP OF CUSTOMER MANAGEMENT AND GOODS MANAGEMENT CAPABILITIES THROUGH LEAN OPERATION

- As part of the intensive efforts on the membership economy, an integrated membership management system has been developed which classifies members into different levels for management, to tap into the merits of economies of scale and membership data. In addition, a personalized customer communication service system has been established to maintain frequent and in-depth interaction with members, look into target consumer groups from various dimensions, raise the repurchase rate and coverage, and materialize the strategic transition from "focusing on customer traffic" to "centering on members"

- The Group fully capitalized on the advantages of its chain operation, continuously expanded the resources, outlets brands forged strategic alliances with more premium brands in a practical spirit and deepened joint operations. The design, production structure and quality of goods also came under better organization. Meanwhile, the Group was in active exploration to improve its proprietary business ability, tapped into big data on consumption to enhance perception, guidance and influence on customers, and expanded overseas direct sourcing at a steady pace to enrich its project brands and diversify its supply chain channels

- On top of its on-going commitment to expanding product portfolio and improving service quality, the Group also actively explored online channels and introduced new types of business operations, aiming to empower shopping experience through online-offline integration. As a result, customer satisfaction has improved year by year, with steady growth in willingness to visit again and recommend. Since its official launch in December, our online shopping mall app "鉅MAX" has offered a new shopping channel via mobile app in addition to the existing WeChat mobile and PC terminals. Equipped with a better surface of functions, the app has integrated the innovative marketing model specific to the project, to effectively boost the reliance of platform users on the shopping mall and its sales. In addition, the "JUMP360" trampoline theme park saw its Nanchang and Wuhan projects officially open for business, offering unique experience that drastically increased customer traffic and brought great opportunities for local consumer groups to relax and enjoy parent-child interaction

ESTABLISHING A SUSTAINABLE PLATFORM FOR CAPITAL CIRCUIT AND CULTIVATING NEW MOMENTUM FOR ASSET MANAGEMENT

- During the period, the Group was agile in seizing opportunities under favorable policies, and leveraged on sound underlying assets and superb business operation capabilities to deliver an innovation breakthrough. The Group received a letter of no-objection from the Shenzhen Stock Exchange for the first domestic shelf offering under a special scheme in the amount of RMB10 billion backed by commercial property assets, which greatly pushed forward the Group's transformation and upgrade from a "developer and operator" to a "major asset management platform" and enabled the Group to become a domestic benchmark of industry-finance integration for the retail sector

- 3-year floating-rate notes worth US$400 million were issued, laying a solid foundation for the Company to build a diversified financing system and a positive image in the international capital market

- The Group landed the first seed project for commercial real estate renovation, as a move to gradually expand its existing business lines, cultivate deep processing capability among different types of commercial properties, and intensively engage in commercial operation and asset management

CONTINUOUSLY RAMPING UP THE BRAND INFLUENCE OF "CAPITAL OUTLETS"

– During the period, the Group's operating projects held marketing activities in line with local conditions, individual demands and important occasions, to quickly establish and deepen the brand image and influence of Capital Outlets

  • Owing to the favorable policy of developing Hainan into a pilot free trade port, the strategic position of Hainan International Tourism Consumption Center has grown clearer. Located in southeast Hainan, the Wanning Capital Outlets store serves as an example for outlets tourism and has recorded a nearly 100% year-on-year increase in customer traffic, with almost 80% of visitors being walk-in customers and member consumption experiencing a year-on-year increase of 51%. The store also saw gradual improvement in consumer structure and stability

  • The Kunshan store has closely centered on its goal of "effectively driving customer traffic and improving the quality of and sales to customer groups" by carrying out more systematic marketing activities with better planning, conducting precision marketing innovation and efficiently integrating resources. As a result, customer traffic experienced a major increase of 38% year on year

  • In an attempt to pilot on resources integration and connect different industries, the Wuhan store staged the "First Special Shopping Carnival for Wuhan Vanke Owners", which bolstered its brand awareness and effectively lifted customer traffic and sales performance

  • The Hangzhou store executed innovative marketing strategies by timely launching the "Mid-year Shopping Festival" and the "Grape Culture Festival". Exquisite creation of festive atmosphere enticed a large number of customers and generated a scene of "hustle and bustle" during a traditionally off season

– In April 2018, "Capital Outlets, Run for Fun", a competition sponsored by the Group, made its debut in Hefei. Under the theme "Running Happily to a Healthy Life", the event aims to explain the social responsibility of popularizing mass fitness and creating a better life together

– In November 2018, with its steady expansion strategy, outstanding performance and innovation strength, the Group was listed in "Top 100 Chinese Commercial Property Firms" (中國商業地產TOP 100) for the third consecutive year and won the "2018 Influential Commercial Property Firms in China" award (2018中國商業地產年度影響力企業大獎). Both awards represent renewed industry recognition of the Group's management and innovation capabilities as well as brand value

– With its outstanding operating results and innovative marketing model, the Beijing Store captured the award "Outstanding Contribution to Business in Beijing for the Fortieth Anniversary of the Reform and Opening Up" (改革開放四十年北京商業卓越貢獻獎) at Beijing Business Brand Conference (北京商業品牌大會), an event co-sponsored by Beijing Federation of Commerce (北京市商業聯合會) and Beijing Daily Group (北京日報報業集團)

FINANCIAL REVIEW

1. REVENUE AND OPERATING RESULTS

In 2018, the revenue of the Group was approximately RMB1,224,040,000 (2017: RMB511,523,000), representing an increase of 139% as compared to that of 2017. The increase in revenue was mainly attributable to: i) an increase in the gross floor area delivered, following quicker sales of the remaining units in Xi'an First City; and ii) additional rental income from continuously robust sales performance of the operating Outlets stores.

In 2018, the Group recorded a gross profit margin of approximately 33%, representing a decrease of 11 percentage points from 44% in 2017. The decline in gross profit margin was mainly attributable to a decline in gross profit margin following the sales of the remaining units in Xi'an First City.

In 2018, operating profit of the Group was approximately RMB255,855,000 (2017: RMB378,766,000), representing a decrease of 32% as compared to that of 2017. Such decrease was mainly attributable to: i) the absence of one-off extraordinary gain recorded in 2017 relating to governmental subsidies for Nanchang Capital Outlets and the revenue from repurchase by the local government of land use rights in Huzhou Capital Outlets in 2018; and ii) a substantial increase in administrative and selling expenses in connection with the opening of new projects in 2018 and continued investment in newly launched projects.

In 2018, the Group's loss for the year was approximately RMB197,458,000 (2017: profit of RMB113,309,000 for the year), representing a decrease of 274% as compared to that of 2017. Such decrease was mainly attributable to the decline in operating profit and the increase in finance cost.

2. LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remained on a healthy level and financial resources were also reasonably distributed. As at 31 December 2018, the Group's cash and cash equivalents and restricted cash totaled RMB3,441,664,000 (31 December 2017: approximately RMB1,851,310,000), of which approximately RMB3,411,542,000 (31 December 2017: RMB1,834,881,000), approximately RMB1,543,000 (31 December 2017: approximately RMB16,429,000) and approximately RMB28,579,000 (31 December 2017: Nil) were denominated in RMB, Hong Kong Dollar ("HK$") and US Dollar ("US$"), respectively. The majority of the Group's cash and cash equivalents and restricted cash are deposited with creditworthy banks with no recent history of default.

As at 31 December 2018, the Group's current ratio was 1.66 (31 December 2017: 1.15).

As at 31 December 2018, the Group's net gearing ratio was 90% (31 December 2017: 47%), based on the division of net debt by total equity. Net debt includes total bank and other borrowings and guaranteed notes (including current and non-current portions), less cash and cash equivalents and restricted cash. The change of net gearing ratio was primarily due to the increase in total debt of the Group in 2018.

3. CHANGES IN MAJOR SUBSIDIARIES, PRINCIPAL JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Qingdao Juda Outlets Business Operation Management Limited (青島鉅大奧萊商業管理有限公司), a subsidiary of the Group, was established in May 2018, and 100% of its net assets was held by the Group.

Nanning Juda Outlets Limited (南寧鉅大奧特萊斯置業有限公司), a subsidiary of the Group, was established in July 2018, and 100% of its net assets was held by the Group.

Xiamen Juda Outlets Business Operation Management Limited (廈門鉅大奧萊商業管理有限公司), a subsidiary of the Group, was established in December 2018, and 100% of its net assets was held by the Group.

In early January 2019, Shanghai Juque, a subsidiary of the Group, entered into an equity exchange contract with the purchaser to dispose of the entire 30% equity interests in the Changsha Capital Outlets Joyous Sky Avenue project held by Shanghai Juque, at a consideration of RMB74,841,000. As at 31 December 2018, the above investment accounted for using the equity method was classified as assets held for sale by the Group.

4. BORROWINGS AND GUARANTEED NOTES

As at 31 December 2018, the Group's borrowings from banks and other financing institutions were approximately RMB5,648,474,000 (31 December 2017: approximately RMB3,205,000,000). The bank borrowings were secured by land use rights and investment properties, and/or guaranteed by the Company or Beijing Capital Land Ltd. ("BCL").

As at 31 December 2018, the amortized cost of the Group's guaranteed notes (the "Notes") was approximately RMB2,759,458,000 (31 December 2017: RMB1,326,329,000), including the current portion of RMB23,139,000 (31 December 2017: RMB1,326,329,000) and the non-current portion of RMB2,736,319,000 (31 December 2017: Nil). As at 31 December 2017, the guaranteed notes with a face value of RMB1,300,000,000 at a nominal interest rate of 5.25% per annum were due in 2018. As at 31 December 2018, the three-year floating-rate guaranteed notes with a face value of US$400,000,000 were listed for trading on The Stock Exchange of Hong Kong Limited ("Stock Exchange of Hong Kong") in August 2018. The details of the Notes were set out in the announcements dated 27 July and 2 August 2018.

5. FOREIGN EXCHANGE EXPOSURE

Major subsidiaries of the Company operate in the PRC and most of the transactions are denominated in RMB. In August 2018, the Group issued guaranteed notes with a face value of US$400,000,000. Accordingly, the Group has entered into a structured cross currency swap agreement to manage the risk of US$ exchange rate fluctuations. In addition, certain of the Group's monetary assets and liabilities are denominated in HK$ and US$, the amount of which is not significant. Hence, it is expected that exchange rate fluctuations will have no significant impact on the finance of the Group.

6. FINANCIAL GUARANTEES

The Group provided guarantees in respect of the mortgage facilities granted by certain banks to purchasers of properties. As at 31 December 2018, the financial guarantees amounted to approximately RMB1,375,293,000 (31 December 2017: RMB1,397,714,000).

7. CAPITAL COMMITMENTS

As at 31 December 2018, the Group had capital commitments relating to the development properties under construction of approximately RMB397,292,000 (31 December 2017: RMB265,023,000), and had capital commitments relating to the investment properties under construction of approximately RMB561,152,000 (31 December 2017: RMB203,920,000).

HUMAN RESOURCES

As at 31 December 2018, the Group had 1,076 employees (as of 31 December 2017: 832). The remuneration policy and package of the Group's employees are structured in accordance to market conditions, the performance, educational background and experience of individual employees as well as statutory requirements where appropriate. In addition, the Group also provides other staff benefits such as pension scheme, medical insurance scheme, unemployment insurance scheme, housing provident fund and share options to motivate and reward employees at all levels to meet the Group's business performance targets.

FUTURE DEVELOPMENT AND PROSPECTS

2019 will witness an even tougher and more complicated external environment, with considerable downward pressure on domestic economy and an inevitably slower growth in the commercial property market. Based on the current project reserves in first and second-tier cities, McKinsey estimated that every two people would share an average of 1 m^2 of commercial area, which is close to the level in mature foreign markets. Hence, the Chinese commercial property market has formally entered the era of "stock". Success hinges on how to keep abreast of the ever-changing retail operations and consumer demands, develop intellectual property (IP) out of brand concepts, and cultivate core competitiveness that distinguishes an enterprise from its counterparts.

Over the next few years, rapid development will still occur to the outlets industry, while competition will turn increasingly stiff for the update of retail form and the iteration of retail technology. As channels, resources and spaces are further squeezed in first and second-tier cities, opportunities will abound on the innovation and upgrade of inventory projects as well as joint operation, whilst new outlets projects will gradually concentrate in third or lower-tier cities. With that in mind, the Group will fully capitalize on the outlets membership consumption and big data of brands that cover hotspot cities nationwide, conduct in-depth analysis through data mining, work out a multi-dimensional indicator system for operations monitoring, and intensify the development of an ecosystem that benefits consumers and brand owners as well. In addition, a variety of capital market instruments will be utilized in an integrated manner, to form a unique outlets asset management system that encompasses "investment-finance-operation-exit". Based on the export of management expertise of the existing Dalian project, further efforts will be made on outlets operation and management expertise export. Besides, the Group will strategically work on the outlets fund, whilst gradually expanding the existing business lines under a light-asset model, cultivating deep processing capability for properties that hold multiple types of business operations, and procuring the Company to transition and upgrade from a developer and operator to a participant with deep engagement in business operation and asset management. Together with a proper balance between heavy and light assets, this will enable the Company to have a more reasonable layout of operations types, better channel development and a more elaborate model for management and control. As such, the Company will broaden its sources of income, reduce expenditure and enjoy higher quality and efficiency, which in turn will generate maximum value for shareholders on a continuous basis.

Mr. Feng Yujian
Chief Executive Officer

Beijing, 6 March 2019

Biographical Details of the Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhong Beichen (鍾北辰), aged 44, was appointed as the chairman of the Board and the chairman of the nomination committee of the Company on January 2017, and was appointed as the president of BCL in April 2018. He is also a director of certain subsidiaries of the Company. Mr. Zhong served as an architect of the Planning and Design Institute of the Department of Light Industry of the PRC (中國輕工業部規劃設計院) from July 1996 to May 2000. Mr. Zhong joined BCL in May 2000 and served as an architect of Beijing Sunshine Real Estate Comprehensive Development Company (北京陽光房地產綜合開發公司) from May 2000 to December 2002 and the deputy general manager of Beijing Anhua Shiji Real Estate Development Co., Ltd. (北京安華世紀房地產開發有限公司) and Beijing Sunshine City Real Estate Development Co., Ltd. (北京陽光城房地產有限公司) from January 2003 to December 2007. Mr. Zhong served as the general manager of the Product R&D Centre of BCL from January 2008 to August 2011 and the vice-president of Outlets Investment Management Co., Ltd. (奧特萊斯投資管理有限公司) from June 2010 to August 2011. He served as the general manager of the Commercial Property Development Department of BCL from September 2011 to December 2013, and the assistant president of BCL from September 2011 to February 2012. Mr. Zhong acted as the executive Director and chief executive officer of the Company from December 2013 to January 2017. He was the vice-president of BCL from January 2017 to April 2018. Mr. Zhong obtained a bachelor's degree in Architecture from Xiamen University in 1996.

Mr. Feng Yujian (馮瑜堅), aged 45, was appointed as an executive Director and the chief executive officer of the Company in January 2017, the chairman of the strategic investment committee of the Company in February 2018, and appointed as the assistant president of BCL in October 2018. He is also a director in certain subsidiaries of the Company. He was the vice-president of the Company from March 2015 to January 2017. He joined BCL and served as the securities business manager in the Business Development Department in March 2003, the deputy general manager of the Strategic Development Centre from April 2008 to January 2010, the general manager of the Capital Management Centre from January 2010 to July 2014, as well as the general manager and investment relationship director of BCL Hong Kong Office from August 2012 to April 2017. Prior to joining BCL, Mr. Feng served as a senior analyst in Foshan Securities Co., Ltd., an analyst in Beijing Xinminsheng Financial Advisory Co., Ltd. and a securities trader in Zhejiang Jinma Property Development Co., Ltd.. Mr. Feng obtained a bachelor's degree in Economics from Renmin University of China in July 1994 and a master's degree in Business Administration from Beijing International MBA (BiMBA) in February 2003.

NON-EXECUTIVE DIRECTORS

Mr. Wang Hao (王昊), aged 36, was appointed as a non-executive Director and a member of the strategic investment committee of the Company in May 2018. Mr. Wang served as a senior manager of the Investment Banking Department of CITIC Securities Co., Ltd. from June 2007 to August 2010. Mr. Wang joined Beijing Capital Group Co., Ltd. (the "Capital Group") as an assistant to the chairman in August 2010 and served as the deputy general manager of the Synergy Development Department of the Capital Group from October 2015 to February 2017, and also served as the deputy general manager of the Real Estate Department of the Capital Group since February 2017. Mr. Wang obtained a bachelor's degree in Electrical Engineering from University of Bristol in the United Kingdom in August 2006.

Ms. Qin Yi (秦怡), aged 40, was appointed as a non-executive Director and a member of the remuneration committee of the Company in December 2018. Ms. Qin served in the financial department of Beijing Saike Pharmaceutical Co., Ltd. (北京賽科藥業股份有限公司) from 2000 to 2001. Ms. Qin joined BCL in July 2004 and served as a professional supervisor of the Business Development Department, a senior manager of the Strategic Development Centre, as well as the assistant general manager and deputy general manager of the Capital Management Centre successively. Ms. Qin has served as the general manager of the Capital Management Centre of BCL since February 2014. She was appointed as the Secretary of the Board of Directors of BCL in March 2016. Ms. Qin obtained a bachelor's degree in Economics from China Institute of Finance and Banking in 2000 and a master's degree in Economics from the School of Economics of Peking University in 2004.

Mr. Wang Honghui (王洪輝), aged 39, was appointed as a non-executive Director as well as a member of the nomination committee and strategic investment committee of the Company in December 2016. He has been the general manager of the Capital Operation Department of Sino-Ocean Group (Stock Code: 3377.HK) since November 2016. He served several positions in Sino-Ocean Group, including the general manager of the CEO Management Centre from February 2015 to October 2016, the general manager of the Investment Department from March 2014 to January 2015, the deputy general manager and subsequently the general manager of the Secretarial and Administration Department from August 2010 to February 2014, and the person-in-charge for investment expansion of the Development Department from July 2005 to July 2010. Mr. Wang was a management officer of Beijing Municipal Commission of Construction from July 2004 to July 2005. He obtained a bachelor's degree in Real Estate Management from Renmin University of China in July 2002 and a master's degree in Regional Economics from the Chinese Academy of Social Sciences in July 2004. Mr. Wang is a senior economist and a real estate appraiser.

Mr. Yang, Paul Chunyao (楊文鈞), aged 50, was appointed as a non-executive Director, a member of the remuneration committee and the strategic investment committee of the Company in February 2018. He joined KKR as a member and head of Greater China in 2017. Prior to joining KKR, Mr. Yang was the president and CEO of China Development Financial Holding Corporation ("CDFC", a company listed on the Taiwan Stock Exchange, stock code: 2883.TW). Prior to joining CDFC, Mr. Yang was the managing director and head of private equity and mezzanine finance at DBS Bank in Hong Kong. Mr. Yang also held positions at the branches of ICG Asia, Goldman Sachs, General Atlantic and Boston Consulting Group in the U.S. and Asia. He is currently a director of CDFC. He received his BS and MS in Mechanical Engineering at MIT and his MBA at Harvard.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung (魏偉峰), aged 57, was appointed as an independent non-executive Director, the chairman of the audit committee and a member of the remuneration committee and nomination committee of the Company in December 2013. He is the chief executive officer of SWCS Corporate Services Group (Hong Kong) Limited, formerly known as SW Corporate Services Group Limited, a specialty company secretarial, corporate governance and compliance services provider to companies in pre-IPO and post-IPO stages. Prior to that, he was the director and head of listing services of an independent integrated corporate services provider. He has over 20 years of senior management experience including acting as the executive director, chief financial officer and company secretary, most of which are in the areas of finance, accounting, internal control and regulatory compliance, corporate governance and secretarial work for listed issuers including major red chips companies. Dr. Ngai had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities. He is a member of the General Committee of the Chamber of Hong Kong Listed Companies and has been appointed as a Finance Expert Consultant by the Ministry of Finance of the PRC since 2016. He was the President of Hong Kong Institute of Chartered Secretaries (2014-2015), and was appointed by the Chief Executive of the Hong Kong Special Administrative Region as an unofficial member of the Working Group on Professional Services under the Economic Development Commission from 2013 to 2018 and was a member of the Qualification and Examinations Board of the Hong Kong Institute of Certified Public Accountants from 2013 to 2018. Dr. Ngai is currently the independent non-executive director of BaWang International (Group) Holding Limited (Stock Code: 1338.HK), Powerlong Real Estate Holdings Limited (Stock Code: 1238.HK), Health and Happiness (H&H) International Holdings Limited (Stock Code: 1112.HK), Bosideng International Holdings Limited (Stock Code: 3998. HK), SITC International Holdings Company Limited (Stock Code: 1308.HK), Yangtze Optical Fibre and Cable Joint Stock Limited Company (Stock Code: 6869.HK), BBMG Corporation (Stock Code: 2009.HK), TravelSky Technology Limited (Stock Code: 696.HK) and China Communications Construction Company Limited (Stock Code: 1800.HK) and also the independent director of LDK Solar Co., Ltd. and SPI Energy Co., Ltd. Apart from LDK Solar Co., Ltd. and SPI Energy Co., Ltd., which are now listed on the OTC Pink Limited Information and Nasdaq respectively, all of which are companies listed on the Stock Exchange of Hong Kong and/or the Shanghai Stock Exchange. Dr. Ngai was the independent non-executive director of China Coal Energy Company Limited (Stock Code: 1898.HK) from December 2010 to June 2017 and China Railway Group Limited (Stock Code: 390.HK) from June 2014 to June 2017. Dr. Ngai is a fellow of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the Hong Kong Institute of Chartered Secretaries, a fellow of Hong Kong Institute of Directors and a member of the Hong Kong Securities and Investment Institute. Dr. Ngai received a doctoral degree in Finance from Shanghai University of Finance and Economics, a master's degree in Corporate Finance from the Hong Kong Polytechnic University, a bachelor honor degree in Laws from University of Wolverhampton in the United Kingdom and a master's degree in Business Administration from Andrews University of Michigan in the United States.

Ms. Zhao Yuhong (趙宇紅), aged 50, was appointed as an independent non-executive Director, the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee of the Company in December 2013. Ms. Zhao has worked as an associate professor of Faculty of Law, The Chinese University of Hong Kong ("CUHK") since August 2008. Ms. Zhao was the assistant dean (UG student affairs) and associate dean (undergraduate studies) of Faculty of Law at CUHK from September 2008 to August 2010 and from September 2010 to July 2013, respectively. Ms. Zhao was a lecturer and subsequently assistant professor of School of Law at City University of Hong Kong from January 1996 to June 2002 and from July 2002 to August 2006, respectively. From September 2006 to July 2008, Ms. Zhao served as an assistant professor of School of Law at CUHK. Ms. Zhao obtained her Bachelor of Arts degree in English Language and Literature and Bachelor of Laws degree from Peking University in July 1991. Ms. Zhao obtained her Master of Studies in Law degree with Magna Cum Laude from Vermont Law School, the USA in February 1993 and her PhD degree in Law from City University of Hong Kong in November 2000.

Mr. He Xiaofeng (何小鋒), aged 63, was appointed as an independent non-executive Director and a member of each of the audit committee and the strategic investment committee of the Company in December 2013, and was appointed as a member of the remuneration committee and the nomination committee of the Company in December 2016. Mr. He obtained a bachelor's degree and a master's degree in Economics in 1982 and 1984 from Peking University, respectively. He is currently a professor of the Department of Finance, School of Economics of Peking University (北京大學經濟學院金融學系) since August 2000, and has been a doctoral supervisor since August 2001 and a director of the Research Center of Financial and Industrial Development of Peking University (北京大學金融與產業發展研究中心) since August 2005. He has taught in the School of Economics of Peking University (北京大學經濟學院) since 1984. Mr. He has also has served as a council member of China Enterprises Investment Association (中國企業投資協會) and the deputy director of Financial Enterprises Investment Committee (金融企業投資委員會) since 2006, the vice chairman of Beijing Private Equity Association (北京股權投資基金協會) since 2008, a director of Beijing FOF Capital Co., Ltd. since 2015, an independent non-executive director of Hanergy Thin Film Power Group Limited (Stock Code: 566.HK) since September 2017, and an independent director of Beijing Life Insurance Co., Ltd (北京人壽保險有限公司) since March 2018.

SENIOR MANAGEMENT

Ms. Lu Yi (陸屹), aged 53, was appointed as a vice president of the Company in August 2016. She joined the Company in July 2015. From July 2010 to June 2015, Ms. Lu served as the person-in-charge of retail business at Fu Wah International Group and the general manager of Beijing Jinbao Place Co., Ltd. (北京金寶匯購物中心有限公司). From February 2009 to July 2010, she served as the general manager of Beijing North Star King Power Co., Ltd (北京北辰嘉權時代名門商業有限公司), a joint venture company by Hong Kong King Power Group and Beijing North Star Industrial Group. From November 2006 to February 2009, she served as the deputy director of retail business of Beijing Yintai Property Co., Ltd. (北京銀泰置業有限公司) under Yintai Group. From July 2004 to November 2006, she served as the deputy general manager of Hangzhou Hubin International Boutique Compound (Euro-street) under Narada Group. From August 2003 to July 2004, she served as the store manager of Cartier Boutique at The Peninsula Beijing. From September 1999 to July 2003, she was a manager at Watches of Switzerland in Sydney. From July 1987 to August 1999, she was a manager of Beijing Yanshan Hotel. Ms. Lu obtained a bachelor's degree in Tourism Economics from Zhejiang University in July 1987.

Biographical Details of the Directors and Senior Management

Mr. Jiang Ronghu (蔣榮虎), aged 43, was appointed as a vice president of the Company in August 2016. Mr. Jiang is a senior engineer and economist. From May 2007 to May 2010, he served as the deputy general manager of Beijing Capital Chaoyang Real Estate Development Co., Ltd. (首創朝陽房地產發展有限公司); from June 2010 to August 2011, he served as the deputy general manager of Outlets Investment Management Co., Ltd. (奧特萊斯投資管理有限公司); from September 2011 to March 2014, he served as the general manager of BCL (Huzhou Real Estate Development) (首創置業湖州開發公司); from March 2014 to March 2015, he served as the general manager of BCL (Shanghai) (首創置業上海公司). Prior to joining BCL, Mr. Jiang served as a deputy general manager for engineering at Landgent Group Co., Ltd. (Beijing) (樂成集團有限公司(北京)), a manager of Beijing Chengtong Real Estate Development Co., Ltd. (北京城通房地產開發有限公司), and a project manager of Beijing Xisanqi Building Material City Management and Development Co., Ltd. (北京西三旗高新建材城經營開發有限公司). Mr. Jiang obtained a higher diploma in Architectural Engineering Management from Nanjing Architectural and Civil Engineering Institute (南京建築工程學院) in July 1995 and a bachelor's degree in Architectural Structures from Tsinghua University in July 2001.

Ms. Liu Jing (劉靜), aged 42, was appointed as a vice president of the Company in December 2017. She serves as an assistant president of the Company from March 2015 to December 2017, an assistant general manager of the Commercial Property Development Department of BCL from August 2012 to March 2015, the deputy general manager of the Human Capital Centre of BCL from January to August 2012, an assistant general manager of the Human Capital Centre of BCL from January 2010 to December 2011, a senior professional manager in charge of remuneration management of the Human Capital Centre of BCL from August 2007 to December 2009, the human resources manager of Canon Information Technology (Beijing) Co., Ltd. (佳能資訊技術(北京)有限公司) from April 2005 to July 2007, and the remuneration and benefits manager of Legend Holdings Limited from September 1998 to March 2005. Ms. Liu obtained a master's degree in Business Administration from Zhongnan University of Economics and Law in December 2012 and a bachelor's degree in Insurance from Central University of Finance and Economics in June 1998.

Mr. Yuan Zelu (袁澤路), aged 52, was appointed as a vice president of the Company in October 2018. He is a senior business operator. He joined BCL in June 2012 and served as the general manager of Beijing Capital Outlets Property Investment Fang Shan Ltd. (北京首創奧特萊斯房山置業有限公司). He served as an assistant manager of Beijing Wangfujing Department Store (北京王府井百貨大樓) from September 1987 to April 1992, the department manager of Beijing Jianguomen Scitech Plaza (北京建國門賽特購物中心) and Xidan Scitech Plaza (西單賽特購物中心) from May 1992 to May 2003, and the deputy general manager of Oriental Kenzo (Beijing) Company Limited (東方銀座商業(北京)有限公司) from June 2003 to March 2007. Later, Mr. Yuan worked as the general manager of the Beijing Project and Tianjin Project of Capital Commercial Real Estate Management Consultation (Shanghai) Company Limited (凱德商用房產管理諮詢(上海)有限公司) Beijing Branch from April 2007 to September 2009. He was the deputy director of the national commercial property business department of Beijing Glory Commercial Management Co., Ltd. (北京國瑞興業商業管理有限公司) and the general manager of Beijing Commercial Management Company (北京商業管理公司) from September 2009 to September 2010. He also served as the executive director for national business management of Beijing Huian Investment Management Co., Ltd. (北京匯安投資管理有限公司) and the general manager of Beijing City Mall (北京都匯天地購物中心) from September 2010 to June 2012. Mr. Yuan obtained a diploma in Commercial Economics (Corporate) Management (商業經濟(企業)管理專業大專文憑) from the School of Continuing Education, Beijing Normal University in March 2000, a bachelor's degree in Business Administration from Beijing Municipal Party Committee School (北京市委黨校) in July 2006, and an MBA degree from the International Business University of Beijing in July 2012.

Mr. Chi Chao (遲超), aged 39, was appointed as the chief financial officer of the Company in October 2017. He was the general manager of the group financial department of Yang Guang Co., Ltd.* (陽光新業地產股份有限公司) (Listed on the Shenzhen Stock Exchange, Stock Code: 000608) from August 2014 to October 2017. He successively served as the financial director and deputy general manager of the BCL Qingdao office from March 2012 to August 2014, the senior financial manager of Beijing Chaoyang Jindu Company* (北京朝陽金都公司) from March 2011 to March 2012, and the senior manager of the Financial Management Centre of BCL from September 2007 to March 2011. In addition, he worked as a cashier, finance staff of the planning and accounting department, customer manager and deputy manager of the customer management department in China Construction Bank (sales department of Anhui branch, Beijing) from July 2001 to September 2007. Mr. Chi obtained a bachelor's degree in Accounting from North China Electric Power University in June 2001.

SECRETARY OF THE BOARD OF DIRECTORS

Ms. Wang Xia (汪霞), aged 43, was appointed as the secretary of the Board in October 2018. Ms. Wang is also the general manager of the Capital Management Centre of the Company. She served as the manager of the president's office of Dalian Hanfeng Group Company (大連漢楓集團公司) and the general manager of its Dalian company from January 2000 to April 2002, as well as a member of the preparatory office, the executive secretary of the general manager's office, the manager of the strategic planning department, and the manager of the process planning and customer relationship management department of ING Capital Life Insurance Co. Ltd (首創安泰人壽保險有限公司) from May 2002 to November 2006. Ms. Wang was the communication and special project manager of the strategy and business development department of Pfizer Investment Limited (輝瑞投資有限公司) from August 2009 to March 2010. She joined BCL in July 2010 and served as the manager for securities affairs, senior manager for capital management and senior manager of the Capital Management Centre. She joined the Company in June 2015. Ms. Wang obtained a bachelor's degree and a master's degree in Engineering from Northwest Institute of Light Industry (西北輕工業學院) in July 1997 and April 2000 respectively, and earned her master's degree in Business Administration from Tsinghua University (Tsinghua-MIT Global MBA Program) in July 2009.

COMPANY SECRETARY

Mr. Lee Sze Wai (李斯維), aged 36, was appointed as the company secretary of the Company in October 2015. Mr. Lee is also the company secretary of BCL. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators, and the Hong Kong Institute of Chartered Secretaries. He is a charterholder of Chartered Financial Analyst. From February 2010 to August 2011, he served as the financial controller and company secretary of Greenfield Chemical Holdings Limited (Stock Code: 582.HK). From August 2011 to November 2014, he worked with Allied Group Limited (Stock Code: 373.HK) as an assistant company secretary. He was the company secretary of Allied Overseas Limited (Stock Code: 593.HK) from March 2012 to January 2014. Mr. Lee obtained a bachelor's degree in Economics and Finance from the University of Hong Kong in 2004.

Report of the Directors

The board of directors (the "Board" or the "Directors") of Beijing Capital Grand Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") hereby presents its report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in commercial property development, with a focus on the development, operation and management of outlets-backed commercial integrated projects and non-outlets retail property projects in the PRC, the details of which have been disclosed in the circular of the Company dated 14 November 2018. The activities of its principal subsidiaries are set out in Note 18 to the financial statements.

BUSINESS REVIEW

The Group's business review required by Schedule 5 to the Hong Kong Companies Ordinance is set out in the "Management Discussion and Analysis" of this Annual Report. A discussion of the Company's environmental policies and performance and an account of the Company's relationship with its key stakeholders will be disclosed in detail in the 2018 Environmental, Social and Corporate Governance Report to be published by the Company, which will be available for inspection at the websites of the Company (www.bcgrand.com) and the Stock Exchange of Hong Kong (www.hkexnews.hk). A description of the key risks and uncertainties faced by the Company is set out below:

KEY RISK FACTORS

The following lists the key risks and uncertainties faced by the Group. As it is a non-exhaustive list, there may be other risks and uncertainties save as those disclosed below. Besides, this Annual Report does not constitute any recommendation or advice for anyone to invest in the securities of the Company. Investors are advised to make their own judgment or consult professionals before making any investment in the securities of the Company.

There are strategic risks, market risks, operation risks, financial risks, and legal risks, etc. during the development process of the Company, of which:

(1) Strategic risks are mainly attributable to the level of the scientific and sustainable standards of strategy establishment of the Company commensurate with economic conditions and the overall trend of the industrial structure;

(2) Market risks are mainly attributable to changes to internal and external environment, such as domestic and overseas macro-economies, market supply and demand, market competition and business partnership, as well as the unexpected potential losses in value at the stock market due to changing stock market prices, interest rates and exchange rates;

(3) Operation risks are mainly attributable to the supervision and control procedures of each business segment involved in the daily operation and management process of the Company;

(4) Financial risks are mainly attributable to the supervision and control procedures of the financial system, including fund raising, investment management and revenue accounting of the Company as a whole;

(5) Legal risks are mainly attributable to the ongoing changes to domestic and overseas policies and regulations, and the internal contract management capability of the Company and its handling of relevant legal disputes.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2018, prepared in accordance with the Hong Kong Financial Reporting Standard and the disclosure requirements of the Hong Kong Companies Ordinance, are set out in the Consolidated Statement of Profit or Loss on page 54 of this annual report.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for each of the last five financial years is set out in the Five Year Financial Summary on page 143 of this Annual Report. The summary does not form a part of the audited financial statements. The published results may not be comparable with the statement of assets and liabilities.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the review period are set out in Note 15 to the Consolidated Financial Statements on page 106 of this annual report.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the review period are set out in Note 17 to the Consolidated Financial Statements on page 109 of this annual report.

ISSUED SHARES

During the year, the Company did not issue any shares. Details of movements in the Company's share capital are set out in Note 30 to the Consolidated Financial Statements on page 131 of this annual report.

ISSUE OF THE PERPETUAL CONVERTIBLE BOND SECURITIES

Details of the perpetual convertible bond securities of the Company during the review period are set out in Note 32 to the Consolidated Financial Statements on page 133 of this annual report.

DEBT SECURITIES

Details of movements in the debt securities of the Company are set out in Note 25 to the Consolidated Financial Statements on page 125 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions on pre-emptive rights under the Company's Articles of Association or the Companies Act which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the year ended 31 December 2018.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Notes 38(a) to the Consolidated Financial Statements on page 142 of this Annual Report and in the Consolidated Statement of Changes in Equity on page 58 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, sales to the Group's largest customer and five largest customers accounted for approximately 10% and 15%, respectively, of the total sales of the Group for the review period. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 12% and 21%, respectively, of the Group's total purchases for the year. None of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers or five largest suppliers at any time during the year.

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2018 are set out in Note 24 to the Consolidated Financial Statements on page 123 of this Annual Report.

DIRECTORS

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

EXECUTIVE DIRECTORS:

Mr. Zhong Beichen (Chairman)
Mr. Feng Yujian (Chief Executive Officer)

NON-EXECUTIVE DIRECTORS:

Mr. Wang Hao (appointed on 21 May 2018)
Ms. Qin Yi (appointed on 5 December 2018)
Mr. Wang Honghui
Mr. Yang, Paul Chunyao (appointed on 9 February 2018)
Mr. Yang Han Hsiang (resigned on 9 February 2018)
Mr. Su Jian (resigned on 21 May 2018)
Mr. Sun Shaolin (resigned on 5 December 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Ngai Wai Fung
Ms. Zhao Yuhong
Mr. He Xiaofeng

In accordance with Article 83(3) of the Articles of Association of the Company, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting. Mr. Wang Hao and Ms. Qin Yi were appointed as non-executive Directors in May and December 2018 respectively, and will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting in accordance with the Articles of Association at the forthcoming annual general meeting.

In accordance with Article 84(1) and (2) of the Articles of Association of the Company, at each annual general meeting, one third of the Directors for the time being (or, if such number is not a multiple of three (3), the number nearest to but not less than one third) shall retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years at the annual general meeting. Accordingly, Mr. Feng Yujian, Dr. Ngai Wai Fung and Ms. Zhao Yuhong will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company are set out on pages 24 to 29 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS AND REMUNERATION

During the year, no Director entered into a service agreement with the Company which was not terminable by the Company within one year without payment of compensation (other than statutory compensation).

The Directors' remuneration policy and portfolio shall be determined by the Board with the recommendation of the Remuneration Committee of the Company with reference to the market rate as well as individual qualifications, contribution and commitments to the Company. The details of Directors' remuneration are set out in Note 10 to the Consolidated Financial Statements on pages 100 to 102 of this Annual Report.

DIRECTORS' INTERESTS IN MATERIAL CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, to the knowledge of the Directors, none of the Directors and chief executives of the Company and their associates had any interests and short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were to be notified to the Company and the Stock Exchange of Hong Kong pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange of Hong Kong.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this Annual Report, the following Directors are also directors and/or officers of Beijing Capital Land Ltd. ("BCL", a controlling shareholder of the Company).

Name of the Director	Position held in BCL
Zhong Beichen	Executive Director and President

BCL is a controlling shareholder of the Company and one of the leading integrated real estate developers in the PRC, focusing primarily on developing the four main business streams of residential property development, integrated outlets, urban core integrated complex and primary land development, complemented by innovative business areas such as high-tech industry properties, cultural and creative industries and rental housing.

On 28 June 2016, the Company entered into the Amended Non-Competition Deed (the "First Amended Non-Competition Deed") with BCL to delineate the business of the Company and BCL by cities and businesses, the details of which are set out in the circular of the Company dated 30 June 2016, and the First Amended Non-Competition Deed has come into effect on 18 July 2016.

On 10 October 2018, the Company entered into the second amended non-competition deed (the "Second Amended Non-Competition Deed") with BCL to replace the First Amended Non-Competition Deed in its entirety and to delineate their business based on (i) usage of the land and properties to be developed and (ii) business model, the details of which are set out in the circular of the Company dated 14 November 2018, and the Second Amended Non-Competition Deed has come into effect on 30 November 2018.

Save as disclosed on page 53 of the 2017 annual report of the Company, BCL has confirmed that during the year and up to the date of this report, it fully complied with the non-competition undertaking under the First Amended Non-Competition Deed and the Second Amended Non-Competition Deed. Therefore, no Directors or their respective associates have interests in such business that competes or may complete with the business of the Group.

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

As at 31 December 2018, to the knowledge of the Directors, the following entities (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which shall be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of shareholder	Capacity	Number of shares	Approximate percentage of the issued share capital (%)	Total number of ordinary shares convertible from Class A Convertible Preference Shares, Class B Convertible Preference Shares and PCBS	Total interests	Percentage of total interests to total issued shares
BECL Investment Holding Limited ("BECL")	Beneficial owner	701,353,846	72.94%	1,072,928,106 *(Note 5)*	1,774,281,952	184.53%
BCL	Interest of controlled corporation *(Note 1)*	701,353,846	72.94%	1,072,928,106 *(Note 5)*	1,774,281,952	184.53%
BCG Chinastar International Limited	Beneficial owner	19,800,000	2.06%	--	19,800,000	2.06%
Beijing Capital Group Co., Ltd ("Capital Group ")	Interest of controlled corporation *(Note 2)*	721,153,846	75%	1,072,928,106 *(Note 5)*	1,794,081,952	186.58%
Smart Win Group Limited	Beneficial owner	95,192,308	9.9%	313,140,124	408,332,432	42.47%
Sino-Ocean Land (Hong Kong) Limited	Interest of controlled corporation *(Note 3)*	95,192,308	9.9%	313,140,124	408,332,432	42.47%

Name of shareholder	Capacity	Number of shares	Approximate percentage of the issued share capital (%)	Total number of ordinary shares convertible from Class A Convertible Preference Shares, Class B Convertible Preference Shares and PCBS	Total interests	Percentage of total interests to total issued shares
Faith Ocean International Limited	Interest of controlled corporation *(Note 3)*	95,192,308	9.9%	313,140,124	408,332,432	42.47%
Shine Wind Development Limited	Interest of controlled corporation *(Note 3)*	95,192,308	9.9%	313,140,124	408,332,432	42.47%
Sino-Ocean Group Holding Limited	Interest of controlled corporation *(Note 3)*	95,192,308	9.9%	313,140,124	408,332,432	42.47%
KKR CG Judo Outlets	Beneficial owner	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR CG Judo	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR China Growth Fund L.P.	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Associates China Growth L.P.	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR China Growth Limited	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Fund Holdings L.P.	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Fund Holdings GP Limited	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Group Holdings Corp.	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR & Co.Inc (formerly known as KKR & Co. L.P.)	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
KKR Management LLC	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
Henry Robert Kravis	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%
Roberts George R.	Interest of controlled corporation *(Note 4)*	95,192,308	9.9%	200,045,787	295,238,095	30.70%

Note:

1. Total interests in 1,774,281,952 shares were deemed to be corporation interest under the SFO.

2. Total interests in 1,794,081,952 shares were deemed to be corporation interest under the SFO.

3. Total interests in 408,332,432 shares were deemed to be corporation interest under the SFO.

4. Total interests in 295,238,095 shares were deemed to be corporation interest under the SFO.

5. On 19 December 2016, the Company issued a total of 905,951,470 Class B Convertible Preference Shares to BECL pursuant to the Class B Convertible Preference Share Subscription Agreement. On 28 December 2016, BECL converted 571,153,846 Class A Convertible Preference Shares into ordinary shares.

Save as disclosed above, as at 31 December 2018, as recorded in the register of interests kept by the Company under Section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company which shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted the share option scheme (the "Scheme") on 14 March 2012 (the "Adoption Date") which would remain in force for a period of 10 years from the Adoption Date, to recognize the contribution made by eligible employees of the Group and to encourage them to continue to serve for the continuing operation and development of the Group.

Under the Scheme, the Directors may at their discretion grant options to (i) any employee of any member of the Group or any entity in which any member of the Group holds equity interest (the "Invested Entity"); (ii) any executive and non-executive Directors of any member of the Group or any Invested Entity; (iii) any supplier and customer of any member of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; or (vi) any adviser or consultant of any member of the Group or any Invested Entity, to subscribe for the shares of the Company.

The number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the Scheme. The limit may be refreshed at any time provided that the new limit must not in aggregate exceed 10% of the issued share capital of the Company as at the date of obtaining shareholders' approval at a general meeting. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme of the Company must not in aggregate exceed 30% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the shares in issue on the last day of such 12-month period, unless approved by the shareholders of the Company in accordance with the Listing Rules. A nominal consideration of HK$1 is payable by the grantee on acceptance of the grant of an option.

Options may be exercised at any time from the date of grant of the options to the 10th anniversary of the date of grant, as may be determined by the Directors. The exercise price is determined by the Directors, and will not fall below the highest of (i) the closing price per share as stated in the Stock Exchange of Hong Kong's daily quotation sheets on the date of the grant of the options; (ii) the average closing price per share as stated in the Stock Exchange of Hong Kong's daily quotation sheets for the five business days immediately preceding the date of the grant of the options; or (iii) the nominal value of the shares.

During the year ended 31 December 2018, no share option was granted, exercised, expired or lapsed, and there was no outstanding share option under the Scheme.

MANAGEMENT CONTRACTS

Other than the contracts in relation to continuing connected transactions as mentioned in this report, no contracts were entered into or subsisted during the year that concerned the management or administration of the whole or any substantial part of the business of the Company.

EQUITY-LINKED AGREEMENTS

Other than the Class A Convertible Preference Share Subscription Agreement dated 15 August 2014, the Class B Convertible Preference Share Subscription Agreement dated 8 June 2016, the Subscription Agreement dated 25 November 2016 and the share option scheme of the Company, no equity-linked agreements were entered into by the Company or subsisted during the year ended 31 December 2018 that would or may result in the Company issuing shares or require the Company to enter into any agreements that would or may result in the Company issuing shares.

CONNECTED TRANSACTIONS

As stated in the joint announcement of the Company dated 10 October 2018 and the circular dated 14 November 2018, on 10 October 2018, the Company entered into the Second Amended Non-Competition Deed with BCL (a controlling shareholder of the Company) to replace the First Amended Non-Competition Deed in its entirety, the details of which are set out in the circular of the Company dated 14 November 2018. This arrangement constitutes a connected transaction of the Company and has been approved by the Company and the general meeting of BCL. The Second Amended Non-Competition Deed has come into effect on 30 November 2018.

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions are set out in Note 37 to the Consolidated Financial Statements.

A) CONTINUING CONNECTED TRANSACTIONS

1. *Leasing of the Premises*

   As stated in the announcement of the Company dated 14 December 2016, Beijing Hengsheng Huaxing Investment Management Co., Ltd. ("Hengsheng Huaxing", a wholly-owned subsidiary of the Company) entered into the Lease with Beijing Shangbodi Investment Consultant Co., Ltd. ("Shangbodi", a connected person of the Company) and GoldenNet Yicheng Asset Management (Beijing) Co., Ltd. ("GoldenNet", an independent third party of the Group) in relation to the leasing of the premises that would serve as the offices of the Group, and the lease is for a term of two years from 14 December 2016 to 13 December 2018 (the "Lease"). For each of the three financial years ended 31 December 2016, 2017 and 2018, the total transaction amount under the Lease shall not exceed RMB1,992,000, RMB7,971,600 and RMB7,971,600, respectively. This arrangement constituted a continuing connected transaction of the Company and the Lease was executed on 14 December 2016.

As stated in the announcement of the Company dated 1 February 2019, Hengsheng Huaxing entered into the lease renewal with Shangbodi and GoldenNet in relation to renew the leasing of the premises for a term of two years (from 14 December 2018 to 13 December 2020) (the "Lease Renewal"). For each of the three financial years ended 31 December 2018, 2019 and 2020, the total transaction amount under the Lease Renewal shall not exceed RMB1,992,900, RMB7,971,600 and RMB7,971,600, respectively. This arrangement constituted a continuing connected transaction of the Company, and the Lease Renewal was executed on 1 February 2019.

2. *Strategic Purchases*

As stated in the announcement of the Company dated 27 June 2017, the Company entered into the master sourcing agreement with Juyuan Xincheng (Tianjin) Commerce & Trading Co., Ltd. (聚源信誠(天津)商貿有限公司) ("Juyuan Xincheng", a connected person of the Company) to procure building equipment and construction materials for the construction of property projects and this agreement is for a term of less than three years ("Master Sourcing Agreement"). For each of the three financial years ended 31 December 2017, 2018 and 2019, the total transaction amount under the Master Sourcing Agreement shall not exceed RMB49,800,000. This arrangement constituted a continuing connected transaction of the Company, and the Master Sourcing Agreement was executed on 27 June 2017.

B) ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that such transactions (a) were in the ordinary and usual course of business of the Group; (b) were on normal commercial terms or better terms; and that (c) the agreements were entered into in a fair and reasonable manner and in the interests of the shareholders of the Company as a whole, and such transactions have been carried out in accordance with the agreements governing the transactions.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company to conduct an audit of the above continuing connected transactions. The auditors have issued a letter containing their conclusions in respect of the continuing connected transactions of the Group disclosed above and their findings that there is no non-compliance with the Rule 14A.56 of the Listing Rules. The Board hereby adds that the auditors of the Company confirm that the continuing connected transactions (i) were approved by the Board; (ii) were conducted pursuant to the relevant agreements for such transactions; and (iii) did not exceed the caps.

The Company confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of the transactions set out above.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, there was sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules during the year and up to the date of this report.

CORPORATE GOVERNANCE

Details of the Company's corporate governance are set out in the Corporate Governance Report on pages 40 to 49 of this Annual Report.

INDEPENDENT AUDITOR

The financial statements for the year were audited by PricewaterhouseCoopers, who will retire at the forthcoming annual general meeting. The Company will submit a resolution at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers as the Company's auditor for the coming year.

On 28 April 2016, the term of office of the auditors of the Company, Ernst & Young, expired and PricewaterhouseCoopers was appointed as the auditors of the Company on the same day.

Save as disclosed above, there has been no other change in the auditors of the Company during the past three years.

It is the auditors' responsibility to form an independent opinion, based on their audit, on these financial statements and to report their opinion solely to the Company and for no other purpose. They do not assume responsibility towards or accept legal liability to any other person for the contents of the independent auditor's report. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 50 to 53.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that its Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, provided that such indemnity shall not be extended to any matters in respect of any fraud or dishonesty. During the year, the Company arranged appropriate insurance for its Directors and senior management to cover their responsibilities arising from the legal actions against the Directors and senior management in relation to corporate activities.

On behalf of the Board

Zhong Beichen
Chairman

Beijing, 6 March 2019

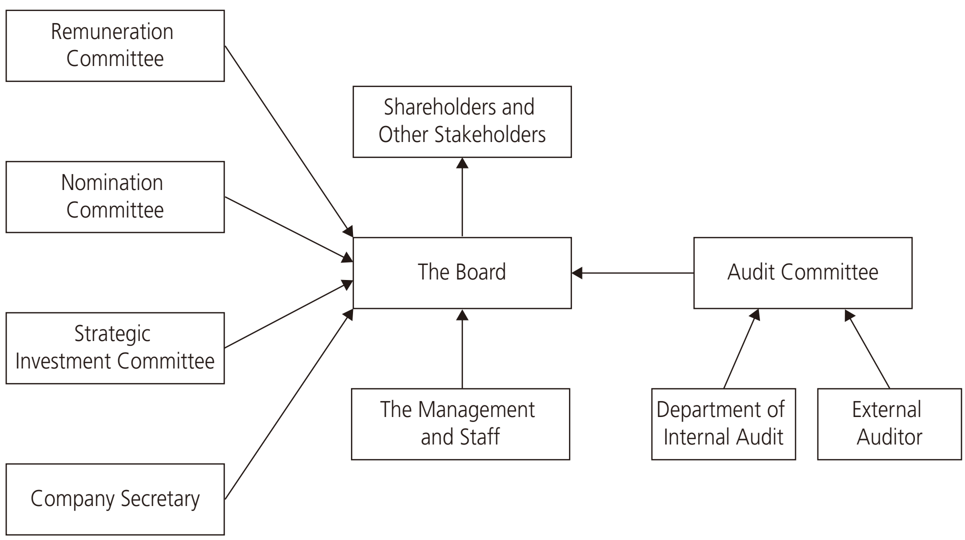
Corporate Governance Report

The board of directors the Company (the "Board") and the management are committed to establishing and maintaining good corporate governance standards, a robust internal control mechanism and effective risk management. They are convinced that sound corporate governance is the cornerstone for the Company's long-term success and can establish a framework for effective management, superior corporate culture, successful business development and shareholder value. At the same time, the Board also actively improves transparency and accountability to all shareholders.

For the year ended 31 December 2018, the Company complied with the requirements under the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules and the continuing obligations requirements of a listed issuer pursuant to the Listing Rules, except for the deviation from Code Provision E.1.2 of the CG Code that the chairman of the board should attend the annual general meetings of the company. The Chairman of the Board was unable to attend the 2017 annual general meeting due to urgent business matters. Instead, the meeting was chaired by the chairman of the audit committee who, together with the management of the Company, answered the questions from shareholders.

CORPORATE GOVERNANCE STRUCTURE

The corporate governance structure of the Company is as follows:



BOARD OF DIRECTORS

As of the date of this report, the Board had nine directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors. The Directors' biographical details are set out on pages 24 to 29 under the section headed "Biographical Details of Directors and Senior Management" of this report. The current composition and structure of the Board are established with reference to the board diversity policy prepared and adopted by the Company. The professional background, skills or experience of the current Directors are also in line with the Group's demand for all-round sustainable development.

EXECUTIVE DIRECTORS:

Mr. Zhong Beichen (Chairman)
Mr. Feng Yujian (Chief Executive Officer)

NON-EXECUTIVE DIRECTORS:

Mr. Wang Hao
Ms. Qin Yi
Mr. Wang Honghui
Mr. Yang, Paul Chunyao

INDEPENDENT NON-EXECUTIVE DIRECTORS:
Dr. Ngai Wai Fung
Ms. Zhao Yuhong
Mr. He Xiaofeng

There is no financial, business, family or other material/relevant relationship among members of the Board. The latest list of Directors setting out their roles and responsibilities is available for inspection at the websites of the Company (www.bcgrand.com) and the Stock Exchange of Hong Kong (www.hkexnews.hk).

For the year ended 31 December 2018, the Company held a total of four Board meetings. The respective Directors' attendance at the Board meetings, the Board committee meetings and general meetings is set out below:

DIRECTORS'/COMMITTEE MEMBERS' ATTENDANCE AT MEETINGS

	The Board	The Audit Committee	The Remuneration Committee	The Nomination Committee	General Meeting
Executive Directors					
Mr. Zhong Beichen	4/4	–	–	1/1	0/2
Mr. Feng Yujian	4/4	–	–	–	1/2
Non-executive Directors					
Mr. Wang Hao (appointed on 21 May 2018)	4/4	–	–	–	0/2
Ms. Qin Yi (appointed on 5 December 2018)	–	–	–	–	–
Mr. Wang Honghui	4/4	–	–	1/1	0/2
Mr. Yang, Paul Chunyao (appointed on 9 February 2018)	3/4	–	1/1	–	0/2
Mr. Yang Han Hsiang (resigned on 9 February 2018)	1/4	–	–	–	–
Mr. Su Jian (resigned on 21 May 2018)	2/4	–	–	–	0/2
Mr. Sun Shaolin (resigned on 5 December 2018)	3/4	–	1/1	–	0/2
Independent non-executive Directors					
Dr. Ngai Wai Fung	4/4	2/2	1/1	1/1	2/2
Ms. Zhao Yuhong	4/4	1/2	1/1	0/1	0/2
Mr. He Xiaofeng	4/4	2/2	1/1	1/1	0/2

BOARD OF DIRECTORS (CONTINUED)

The Board is responsible to the shareholders for providing effective corporate leadership, and ensuring transparency and accountability of the Group's operations. The Board is responsible for, among other things:

– Setting up the Group's development strategies as well as medium and long-term development plans;

– Establishing and maintaining the Group's business policies and objectives;

– Monitoring the performance of the management and reviewing the functions and assignments regularly;

– Ensuring that the Company implements a prudent and effective control framework to assess and manage risks;

– Ensuring that the financial statements truly and fairly reflect the financial position of the Group.

The Board delegates the day-to-day management, administration and operations of the Group's business to the management of relevant departments and divisions. The management is responsible for the implementation and adoption of the Company's strategies and policies.

The Company has maintained suitable and adequate insurance coverage for all Directors against their liabilities arising from legal actions due to the performance of corporate activities. The Company reviews the insurance purchased annually to ensure the provision of reasonable and sufficient protection.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Zhong Beichen is the Chairman of the Board and Mr. Feng Yujian is the Chief Executive Officer. The Chairman of the Board is mainly responsible for taking the lead in the Board to ensure its effective operation, providing adequate, complete and reliable information for all Directors in a timely manner, establishing good corporate governance practices and procedures, and ensuring that proper approaches are adopted to maintain effective communication with shareholders. The Chief Executive Officer, on the other hand, is mainly responsible for the day-to-day operations and overall management of the Group, implementing the business policies and objectives determined and adopted by the Board, and reporting to the Board on the Group's overall operations.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors and independent non-executive Directors has signed a three-year service contract with the Company which shall start on the date of appointment, subject to the provision on retirement by rotation of directors under the Articles of Association of the Company.

The Company has three independent non-executive Directors, representing one third of the members of the Board, of which at least one possesses the appropriate professional qualifications or accounting or relevant financial management expertise. The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and considers them to be independent.

BOARD OF DIRECTORS (CONTINUED)

DIRECTORS' TRAINING

According to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and update their knowledge and skills, to ensure that their contribution to the Board remains informed and relevant.

For the year ended 31 December 2018, all Directors have participated in continuous professional development, including attending the seminars given by external legal advisors under the arrangement of the Company in respect of the update of the Listing Rules, relevant regulations of Hong Kong and the responsibilities of Directors, which develop and update their knowledge and skills, so as to ensure that their continuous contribution to the Board is made in a well-informed and relevant manner and they receive the latest information in relation to relevant laws and regulations and the overall development of the Group. The Company also encourages the Directors to participate in other continuing professional development programs exclusively designed for them.

In addition, the Company will provide a Group Profile to each newly appointed Director to ensure that they have sufficient knowledge of the Group's business and operations.

COMPANY SECRETARY

The Company Secretary assists the Chairman of the Board in preparing the agenda of the Board meetings and ensures compliance with all applicable rules and regulations of the procedures of such meetings. The Company Secretary shall file for and maintain the detailed minutes of each Board meeting, and make such minutes available to all Directors for inspection.

According to Rule 3.29 of the Listing Rules, the Company Secretary of the Company took not less than 15 hours of relevant professional training for the year ended 31 December 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiries by the Company, all Directors have confirmed that they fully complied with the requirements under the Model Code during the year ended 31 December 2018.

BOARD COMMITTEES

Under the Board are four committees, including the Company's Audit Committee ("AC"), Remuneration Committee ("RC"), Nomination Committee ("NC") and Strategic Investment Committee ("SIC"). Each of the Board committees has its respective written terms of reference approved by the Board, which covers its duties, authority and functions. Such terms of reference comply with the requirements of the Listing Rules and have taken into account the specific business needs of the Company. The Board committees have sufficient resources to perform their duties, report to the Board on the results of their meetings, raise key issues and findings, and provide recommendations to assist the Board in decision-making.

BOARD OF DIRECTORS (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(a) AC

The AC was established on 14 March 2012 with written terms of reference (revised from time to time) in compliance with the CG Code. As at the date of this report, it consists of three members who are all independent non-executive Directors, namely, Dr. Ngai Wai Fung (as chairman), Ms. Zhao Yuhong and Mr. He Xiaofeng. Dr. Ngai Wai Fung is a fellow of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants, with appropriate professional qualification required under Rule 3.10(2) of the Listing Rules.

The primary duties of the AC are to make recommendations to the Board on the appointment and removal of external auditors, review financial statements and express material advice in respect of financial reporting, as well as review the financial control, internal control and risk management systems of the Company. The terms of reference of the AC are available for inspection at the websites of the Company (www.bcgrand.com) and the Stock Exchange of Hong Kong (www.hkexnews.hk).

For the year ended 31 December 2018, the AC held two meetings. Details of each committee member's attendance at the AC meetings are set out in "Directors'/Committee Members' Attendance at Meetings" above. In addition, the members of the AC had two meetings with the external auditor during the year without the presence of the management.

The work of the AC for the 12 months ended 31 December 2018 is summarized below:

– reviewed the announcement of interim and annual results of the Group, and recommended the Board to adopt the results;

– met with the auditors to discuss the accounting and audit issues of the Group, and reviewed their findings, recommendations and representations;

– reviewed the Group's financial control, internal control and risk management systems;

– reviewed the independence of the external auditor, recommended that the Board re-appoint PricewaterhouseCoopers as an external auditor of the Company and review its terms of appointment;

– reviewed environmental, corporate and governance-related risks, and confirmed that environmental, social and governance risk management and internal control systems were in place and effective during the year; and

– reviewed the connected transactions and continuing connected transactions during the year.

BOARD OF DIRECTORS (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(b) RC

The RC was established on 14 March 2012 with written terms of reference (revised from time to time) in compliance with the CG Code. As at the date of this report, it consists of five members, including three independent non-executive Directors Ms. Zhao Yuhong (as chairman), Dr. Ngai Wai Fung and Mr. He Xiaofeng, and two non-executive Directors Ms. Qin Yi and Mr. Yang, Paul Chunyao.

The primary duties of the RC are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review remuneration proposals of the management with reference to the financial statements, operation situation of the Company and individual performance; and ensure that none of the Directors or any of their associates determine their own remuneration. The terms of reference of RC are available for inspection at the websites of the Company (www.bcgrand.com) and the Stock Exchange of Hong Kong (www.hkexnews.hk).

For the year ended 31 December 2018, the RC held one meeting. Details of each committee member's attendance at the RC meetings are set out in "Directors'/Committee Members' Attendance at Meetings" above.

The work of the RC for the year ended 31 December 2018 is summarized below:

– proposed the 2017 bonus of the Directors and senior management;

– proposed the 2018 remuneration scheme of the Directors and senior management;

– proposed the service contracts and remuneration for newly appointed Directors; and

– reviewed the current incentive system for the staff.

(c) NC

The NC was established on 14 March 2012 with written terms of reference (revised from time to time) in compliance with the CG Code. As at the date of this report, it consists of five members including one executive Director Mr. Zhong Beichen (as chairman), one non-executive Director Mr. Wang Honghui, and three independent non-executive Directors Dr. Ngai Wai Fung, Ms. Zhao Yuhong and Mr. He Xiaofeng.

The primary duties of the NC are to review the structure, size and composition of the Board and make recommendations to the Board regarding candidates to the Board. The terms of reference of the NC are available for inspection at the websites of the Company (www.bcgrand.com) and the Stock Exchange of Hong Kong (www.hkexnews.hk).

BOARD OF DIRECTORS (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(c) NC (continued)

The Board has a board diversity policy in place which sets out the approach to achieve diversity on the Board in June 2013. Accordingly, the selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service, and based on the Company's own business model and specific needs from time to time; the decision is made on the basis of the candidate's merits and potential contribution to the Board. With the existing Board members coming from a variety of business and professional background and two out of the nine Board members being women, the Company considers that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the Company's business. Profiles of the Directors are set out on pages 24 to 29 and have been published at the website of the Company (www.bcgrand.com).

For the year ended 31 December 2018, the NC held one meeting. Details of each committee member's attendance at the NC meetings are set out in "Directors'/Committee Members' Attendance at Meetings" above.

The work of the NC for the year ended 31 December 2018 is summarized below:

– made recommendations to the Board on the retirement and re-election of Directors at the annual general meeting in 2017;

– reviewed the structure, size and composition of the Board; and

– made recommendations to the Board on the candidates of Directors and Board committee members, and proposed the Directors' functions, based on the board diversity policy and orientation.

(d) SIC

The SIC, established on 21 December 2013 with obligations under the written terms of reference (revised from time to time), has the primary duty of advising on the long-term development strategies and major investment decisions of the Company. As at the date of this report, it consists of five members, including one executive Director Mr. Feng Yujian (as chairman), three non-executive Directors Mr. Wang Hao, Mr. Wang Honghui and Mr. Yang, Paul Chunyao, and one independent non-executive Director Mr. He Xiaofeng.

For the year ended 31 December 2018, the SIC held one meeting, mainly to review the financial budget plan for 2018.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties, and adopted the CG Code as its corporate governance code of practices during the year ended 31 December 2018.

The Board has, among other things, reviewed the training and continuous professional development of the Directors as well as the Company's compliance with the relevant code provisions of the CG Code for the year ended 31 December 2018, and made disclosures in this Corporate Governance Report.

BOARD OF DIRECTORS (CONTINUED)

ACCOUNTABILITY

The Board is accountable to shareholders, while the management is accountable to the Board. The Board endeavors to ensure that the announcements of annual and interim results and the annual and interim reports of the Group present a balanced and understandable assessment of the Group's position and prospects. The Board embraces openness and transparency in the conduct of the Company's affairs, whilst preserving the commercial interests of the Company. Financial and other information is delivered to shareholders through announcements at the websites of the Stock Exchange of Hong Kong (www.hkexnews.hk) and the Company (www.bcgrand.com).

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management and internal control are important parts in the operation and management of the Group. The Board and the management take high priority on the organization and implementation of each process of risk management and internal control, and have gradually established a comprehensive risk management system in the Company based on risk identification, measures, internal review and assessment, and continuous improvement, together with a three-tier internal control mechanism in place that consists of the Board (the AC), the Risk Management and Control Department and the management (each business department):

The Board is responsible for setting up the risk management and internal control mechanism for the Group, establishing the core values, strategic planning and working guidelines of the Company, and conveying the above to each department of the Group through various channels, including platforms such as the enterprise information system, meetings, training and intranet. Risk control is incorporated into the operation flow, and the AC would identify the operation risk of the internal control system on a regular basis and review the effectiveness of risk management and control;

1. the Risk Management and Control Department is responsible for providing regular review and assisting the Board in preparing effective policies and guidance on corporate risk management and risk control based on the changes to internal and external conditions and regulations, to enable risk management and internal control to take place under a standardized system with proper processes and institutions. Meanwhile, the Risk Management and Control Department would carry out independent assessment on an ongoing basis, which covers all material aspects including legal risks, compliance control, operation monitoring as well as the workflow and risk assessment of each department of the Group. The Risk Management and Control Department is also directly responsible to the AC and reports on the effectiveness of risk management and internal control;

2. the management and each of the business departments would effectively oversee, review and approve their respective management and control process at the business level based on different functions and work division through various business systems, to enhance the efficiency of risk management and realize a closed-loop management model for risk control which is led by self-supervision at the business level.

In 2018, the Group complied with the three-year development plan for comprehensive risk management system and continued with its priority work in risk control. Based on the standardization of risk control system, workflows and accountability, supplementary content has been added to improve the Contract Approval Efficiency Improvement Plan and the Commercial Law Risk Manual, to quantify risk monitoring indicators, further align risk control with corporate operation and management. In addition, development of a mature risk control model would realize sound, proper and effective operation of the internal control system, thus safeguarding the strategic development of the Company.

As of the date of this report, the Risk Management and Control Department has assessed the risk management and internal control of the Company. The assessment concluded invariably that no significant weakness was found in the internal control of the Company, with an internal control effectiveness report with unqualified opinion issued to the AC. The Board has also confirmed that the risk management and internal control system of the Company is effective and adequate.

BOARD OF DIRECTORS (CONTINUED)

BOARD OF DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

With the assistance of the financial management department, the Board acknowledged their responsibility for preparing the financial statements of the Group for the year ended 31 December 2018, and confirmed that the financial statements contained herein gave a true and fair view of the results and state of affairs of the Group for the period under review. The Board considers that the financial statements have been prepared in conformity with the statutory requirements and applicable accounting standards.

AUDITORS' REMUNERATION

The financial statements for the year ended 31 December 2018 were audited by PricewaterhouseCoopers, whose term of office will expire upon the forthcoming annual general meeting. The AC has recommended to the Board on re-appointing PricewaterhouseCoopers as the auditors of the Company for the year 2019 at its forthcoming annual general meeting.

The independent auditor's remuneration in respect of its audit services, capital market and other non-audit services for the year ended 31 December 2018 amounted to RMB1,934,000 and RMB2,269,000 respectively.

SHAREHOLDERS' RIGHTS

The Company recognizes the importance of and takes high priority on communication with its shareholders. Certain key information on shareholders' rights is provided below:

1. *Communication with shareholders*

   The Board is well aware of the importance of maintaining good communication with shareholders and strives to enhance the communication with shareholders. Shareholders can visit the website of the Company (www.bcgrand.com) for the latest information of the Group, including interim reports and annual reports, announcements and circulars. Press releases are also posted on the website of the Company in a timely manner.

   General meetings serve as a communication channel between the Board and shareholders. The Group regards such a meeting as an important activity of the Company during the year. All Directors and senior management personnel would attend the meeting as much as they can. The chairman of the annual general meeting proposes separate resolutions for each of the independent matters. Members of the AC, the RC, the NC and the SIC, external auditors, independent financial advisers and external lawyers would also attend the general meeting to answer questions from shareholders as appropriate. During the year, the Company held one annual general meeting and one extraordinary general meeting. Details of each Director's attendance at the general meetings are set out in "Directors'/Committee Members' Attendance at Meetings" above.

2. *Procedures to convene an extraordinary general meeting*

   Shareholders may request the Company to convene a general meeting according to the provisions set out in the Company's Articles of Association and the Companies Law of the Cayman Islands. A copy of the Company's Articles of Association is available on the Company's website. The procedures for shareholders to nominate a person for election as a Director of the Company are also available on the Company's website under the title "Procedures for Shareholder(s) to Propose a Person for Election as a Director".

BOARD OF DIRECTORS (CONTINUED)

AUDITORS' REMUNERATION (CONTINUED)

3. *Procedures for shareholders to propose a person for election as a Director of the Company*

   The Company has also adopted a set of procedures for shareholders to put forward proposals at general meetings.

   Subject to the provisions of its Articles of Association, the Company may elect any person to be a Director either to fill a casual vacancy or as an additional Director by passing ordinary resolutions at a general meeting from time to time.

   If a shareholder wishes to propose a person other than a Director of the Company for election as a Director at a general meeting, the shareholder can deposit a written notice at the principal place of business of the Company in Hong Kong for the attention of the Board and the Company Secretary within a seven-day period commencing from the day after the dispatch of the notice of meeting.

   In order for the Company to inform other shareholders of that proposal, the written notice must state the full name of the candidate proposed for election as a Director, including his/her biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and the person indicating his/her willingness to be elected.

   In order to allow sufficient time for shareholders to receive and consider the proposal of electing the nominee as a Director of the Company, shareholders are encouraged to submit and lodge the written notice as early as practicable.

4. *Policy of dividend payment*

   As the Company is still in the stage of development, it has no policy established for dividend payment.

5. *Procedures to send enquiries to the Board*

   Shareholders may send their enquiries and concerns to the Board of the Company by addressing them to the principal place of business of the Company in Hong Kong at Suites 4602-05, One Exchange Square, Central, Hong Kong by post for the attention of the Company Secretary.

6. *Amendments to the constitutional documents of the Company*

   During the year, no amendments were made to the Memorandum and Articles of Association of the Company, which are available to shareholders for inspection at the websites of the Company (www.bcgrand.com) and the Stock Exchange of Hong Kong (www.hkexnews.hk).

INVESTORS' RELATIONS

The Company's websites (www.bcgrand.com) and (www.capitaloutlets.com) offer comprehensive and accessible news and information of the Company to shareholders, other stakeholders and investors. The Company will also update the website information from time to time, to inform shareholders and investors of the latest development of the Company.

Independent Auditor's Report

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Beijing Capital Grand Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of Beijing Capital Grand Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 142, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

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.

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KEY AUDIT MATTERS

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

Key audit matter identified in our audit is valuation of investment properties.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties	
Refer to Note 17 to the consolidated financial statements. The Group adopts the fair value model for subsequent measurement of investment properties. As at 31 December 2018, investment properties measured at fair value amounted to RMB9,271,400,000 and fair value gains on investment properties for the year then ended was RMB262,497,000. The fair value was determined based on the valuation performed by an independent professional valuer (the "valuer") as a third party engaged by The Group. The valuations of investment properties involved critical accounting estimates and judgements, which mainly included the determination of valuation techniques and the selection of inputs accordingly. The valuation techniques usually include income capitalisation approach and residual approach based on the construction status of each property. The inputs adopted in income capitalisation approach and residual approach usually include market rental prices and discount rates; Besides, residual approach also involve inputs of interest rates, profit margin rates and development costs to complete. Considering the above mentioned critical accounting estimates and judgements, and the significant impact on the consolidated financial statements, we paid specific attention to this matter in our audit.	We assessed the competence, professional ability and objectivity of the valuer. We communicated with the management about the valuation techniques adopted for each investment property, obtained and read the valuation reports for all the investment properties measured at fair value delivered by the valuer, and assessed the relevance and reasonableness of valuation techniques used by the valuer in consideration of the actual construction or operation status. We selected some of the investment properties measured at fair value by sampling and performed the following procedures: We assessed the reasonableness of key inputs used under both income capitalisation approach and residual approach, including market rental prices and discount rates, by comparing the market rental prices with comparative cases in active markets and the information of the rental prices in management's records, and by comparing the discount rates with the average discount rates in the industry. We assessed the reasonableness of other key inputs used under residual approach, including interest rates, profit margin rates and development costs to complete, and compared the development costs to complete with management's budgets. Based on the above, we obtained supportive evidence for critical accounting estimates and judgements made by management on the valuation techniques and key inputs used in the valuations of investment properties.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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 identified above when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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 scepticism throughout the audit. We also:

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

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

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

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

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

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

We communicate with the 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.

The engagement partner on the audit resulting in this independent auditor's report is Tsun NG.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 6 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6,7	**1,224,040**	511,523
Cost of sales	8	**(818,440)**	(286,369)
Gross profit		**405,600**	225,154
Fair value gains on investment properties	7	**262,497**	222,394
Other gains – net	7	**1,218**	48,295
Other income	7	**47,157**	142,888
Selling and marketing expenses	8	**(163,082)**	(99,675)
Administrative expenses	8	**(297,535)**	(160,290)
Operating profit		**255,855**	378,766
Finance costs	9	**(212,509)**	(111,676)
Share of losses of investments accounted for using the equity method	19	**(4,155)**	(694)
Profit before income tax		**39,191**	266,396
Income tax expense	12	**(236,649)**	(153,087)
(Loss)/profit for the year		**(197,458)**	113,309
Attributable to:			
– Owners of the Company		**(197,698)**	113,159
– Non-controlling interests		**240**	150
(Losses)/earnings per share attributable to owners of the Company during the year	14		
Basic (losses)/earnings per share (RMB)		**(0.08)**	0.04
Diluted (losses)/earnings per share (RMB)		**(0.08)**	0.04

Details of the dividend proposed for the year are disclosed in Note 13.

The notes on pages 62 to 142 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
(Loss)/profit for the year		**(197,458)**	113,309
Other comprehensive loss for the year			
Items that may be reclassified to profit or loss			
Cash flow hedges	*26*	**(23,815)**	–
Cost of hedging	*26*	**(11,478)**	–
		(35,293)	–
Total comprehensive (loss)/income for the year		**(232,751)**	113,309
Attributable to:			
– Owners of the Company		**(232,991)**	113,159
– Non-controlling interests		**240**	150

The notes on pages 62 to 142 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

Year ended 31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**27,086**	26,290
Long-term prepaid expenses	16	**151,337**	81,400
Investment properties	17	**10,763,096**	7,951,890
Investments accounted for using the equity method	19	**31,239**	108,015
Intangible assets		**2,319**	2,767
Deferred income tax assets	29	**16,176**	17,829
Prepayments	22	**295,027**	–
Total non-current assets		**11,286,280**	8,188,191
Current assets			
Inventories	20	**2,083,387**	2,300,719
Incremental costs of obtaining a contract	6	**16,255**	–
Trade and other receivables and prepayments	22	**705,961**	555,291
Assets classified as held-for-sale	19	**73,239**	–
Restricted cash	23	**33,173**	58,110
Cash and cash equivalents	23	**3,408,491**	1,793,200
Total current assets		**6,320,506**	4,707,320
Total assets		**17,606,786**	12,895,511
LIABILITIES			
Non-current liabilities			
Borrowings	24	**4,912,007**	2,545,000
Guaranteed notes	25	**2,736,319**	–
Derivative financial liabilities	26	**32,871**	–
Provisions		**4,123**	–
Deferred income tax liabilities	29	**605,077**	570,771
Total non-current liabilities		**8,290,397**	3,115,771

Consolidated Statement of Financial Position

Year ended 31 December 2018

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000
Current liabilities			
Trade payables	27	**1,662,540**	984,360
Other payables and accruals	28	**329,286**	1,110,895
Contract liabilities	6	**1,004,183**	–
Borrowings	24	**736,467**	660,000
Current income tax liabilities		**73,068**	34,352
Guaranteed notes	25	**–**	1,298,265
Total current liabilities		**3,805,544**	4,087,872
Total liabilities		**12,095,941**	7,203,643
EQUITY			
Equity attributable to owners of the Company			
Share capital	30	**16,732**	16,732
Perpetual convertible bond securities	32	**945,382**	945,289
Reserves		**3,196,922**	3,232,215
Retained earnings		**1,301,120**	1,493,338
		5,460,156	5,687,574
Non-controlling interests		**50,689**	4,294
Total equity		**5,510,845**	5,691,868
Total equity and liabilities		**17,606,786**	12,895,511

The financial statements on pages 54 to 61 were approved by the Board of Directors on 6 March 2019 and were signed on its behalf.

Mr. Zhong Beichen
Director

Mr. Feng Yujian
Director

The notes on pages 62 to 142 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to owners of the Company									
		Issued capital									
	Notes	Ordinary shares RMB'000	Class A convertible preference shares RMB'000	Class B convertible preference shares RMB'000	Perpetual convertible bond securities RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 31 December 2017		7,828	1,329	7,575	945,289	3,169,418	62,797	1,493,338	5,687,574	4,294	5,691,868
Adjustment on adoption of Hong Kong Financial Reporting Standard 15 ("HKFRS15")	3.1	–	–	–	–	–	–	5,573	5,573	–	5,573
At 1 January 2018		7,828	1,329	7,575	945,289	3,169,418	62,797	1,498,911	5,693,147	4,294	5,697,441
(Loss)/profit for the year		–	–	–	–	–	–	(197,698)	(197,698)	240	(197,458)
Other comprehensive loss for the year	26	–	–	–	–	–	(35,293)	–	(35,293)	–	(35,293)
Total comprehensive (loss)/income for the year		–	–	–	–	–	(35,293)	(197,698)	(232,991)	240	(232,751)
Transactions with owners											
Capital injection from non-controlling interests		–	–	–	–	–	–	–	–	46,155	46,155
Dividends payable to perpetual convertible bond securities holders	32	–	–	–	93	–	–	(93)	–	–	–
Total transactions with owners		–	–	–	93	–	–	(93)	–	46,155	46,155
At 31 December 2018		7,828	1,329	7,575	945,382	3,169,418	27,504	1,301,120	5,460,156	50,689	5,510,845

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to owners of the Company									
		Issued capital									
	Notes	Ordinary shares *RMB'000*	Class A convertible preference shares *RMB'000*	Class B convertible preference shares *RMB'000*	Perpetual convertible bond securities *RMB'000*	Share premium account *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Subtotal *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2017		7,828	1,329	7,575	945,197	3,169,418	62,797	1,380,271	5,574,415	2,644	5,577,059
Profit for the year		–	–	–	–	–	–	113,159	113,159	150	113,309
Total comprehensive income for the year		–	–	–	–	–	–	113,159	113,159	150	113,309
Transactions with owners											
Capital injection from non-controlling interests		–	–	–	–	–	–	–	–	1,500	1,500
Dividends payable to perpetual convertible bond securities holders	*32*	–	–	–	92	–	–	(92)	–	–	–
Total transactions with owners		–	–	–	92	–	–	(92)	–	1,500	1,500
At 31 December 2017		7,828	1,329	7,575	945,289	3,169,418	62,797	1,493,338	5,687,574	4,294	5,691,868

The notes on pages 62 to 142 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Profit before income tax		**39,191**	266,396
Adjustments for:			
Finance costs	9	**212,509**	111,676
Interest income		**(6,565)**	(12,735)
Depreciation and amortisation		**54,466**	32,722
Share of losses of investments accounted for using the equity method	19	**4,155**	694
Fair value gains on investment properties	7	**(262,497)**	(222,394)
Gains from disposal of a subsidiary	7	**–**	(13,123)
Gains from government repurchase of land use rights	7	**–**	(69,661)
Service fee for keepwell deed	8	**5,696**	3,900
Effect of foreign exchange rate changes, net	7	**(911)**	30,759
Downstream transaction offsetting	19.1	**180**	–
Decrease/(increase) in inventories		**194,229**	(250,723)
Increase in trade and other receivables and prepayments		**(116,675)**	(232,047)
Decrease/(increase) in restricted cash		**24,937**	(57,679)
Increase in provisions		**4,123**	–
Increase in trade payables, other payables and accruals		**475,120**	498,048
Cash generated from operations		**627,958**	85,833
Income tax paid		**(109,828)**	(74,409)
Net cash flows generated from operating activities		**518,130**	11,424
Cash flows from investing activities			
Interests received from deposits		**6,565**	4,252
Purchases of property, plant and equipment		**(9,554)**	(10,338)
Additions of investment properties		**(2,279,547)**	(1,656,728)
Additions of long-term prepaid expenses	16	**(115,299)**	(44,717)
Investment in an associate	19.2	**–**	(33,300)
Investment in a joint venture	19.1	**–**	(4,000)
Amounts repaid from related parties	37(g)	**23,940**	119,928
Amounts provided to related parties	37(g)	**(10,000)**	–
Repayments of deposit of investment		**–**	(42,700)
Disposal of a subsidiary		**–**	(98,035)
Payment for 1% of equity interests of Beijing Capital Outlets Property Investment Fangshan Ltd.		**–**	(15,167)
Amounts received from Beijing Yulong Hengxin Commercial Management Company Ltd. ("Yulong Hengxin")		**–**	103,948
Amounts received from government repurchase of land use rights		**4,155**	34,425
Purchases of intangible assets		**(4,925)**	–
Net cash flows used in investing activities		**(2,384,665)**	(1,642,432)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Repayments of bank borrowings		**(941,476)**	(225,000)
Interests paid to bank borrowings		**(269,650)**	(73,915)
Amounts received from related parties	*37(h)*	**–**	164,380
New bank borrowings		**3,384,950**	2,440,000
Service fee for keepwell deed		**(8,119)**	(3,900)
Interests paid for guaranteed notes	*25*	**(103,049)**	(68,623)
Repayments of loans due to related parties	*37(f)*	**–**	(630,000)
Repayments of amounts due to related parties	*37(h)*	**(1,008)**	–
Professional fees paid for issuance of new shares and perpetual convertible bond securities		**–**	(29,011)
Interests paid to related parties	*37(f)*	**(1,767)**	(31,051)
Capital injection from non-controlling interests		**–**	1,500
Cash settlement of hedging instrument		**(6,568)**	–
Proceeds from guaranteed notes issued	*25*	**2,721,893**	–
Repayments of guaranteed notes	*25*	**(1,300,000)**	–
Net cash flows generated from financing activities		**3,475,206**	1,544,380
Net increase/(decrease) in cash and cash equivalents		**1,608,671**	(86,628)
Cash and cash equivalents at beginning of the year		**1,793,200**	1,910,587
Exchange gains/(losses) on cash and cash equivalents		**6,620**	(30,759)
Cash and cash equivalents at end of the year		**3,408,491**	1,793,200

An analysis of net debt and the movements in net debt for each of the years presented is disclosed in Note 33.

The notes on pages 62 to 142 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2018

1 CORPORATE AND GROUP INFORMATION

Beijing Capital Grand Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively referred to as the "Group") are engaged in commercial property development, with a focus on the development, operation and management of outlets-backed commercial integrated projects and non-outlets retail property projects in the People's Republic of China (the "PRC" or "Mainland China").

As announced on 25 June 2015, Get Thrive Limited ("GTL"), an indirectly wholly-owned subsidiary of Beijing Capital Land Ltd. ("BCL", a joint stock company incorporated in the PRC with limited liability whose H shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited) has transferred (the "Transfer") its entire shareholding of ordinary shares of the Company of 130,200,000 shares (representing approximately 65.1% of the Company's total issued share capital as at the date of the related announcement) and its entire shareholding of convertible preference shares of the Company (the "CPS") of 738,130,482 CPS (representing 100% of the total CPS in issue as at the date of the related announcement, classified as class A CPS) to BECL Investment Holding Limited ("BECL"), a directly wholly-owned subsidiary of BCL incorporated in Hong Kong, on 19 June 2015. Upon the completion of the Transfer, the parent of the Company changed from GTL to BECL.

On 14 December 2016, the Company issued 905,951,470 CPS, which is classified as class B CPS, to BECL at the issue price of Hong Kong dollar ("HK$") 2.78 per share.

On 28 December 2016, the Company issued 95,192,308 ordinary shares to Smart Win Group Limited ("Smart Win") and to KKR CG Judo Outlets ("KKR") respectively (the "Issuance"), at the issue price of HK$2.10 per share. Meanwhile, the Company issued perpetual convertible bond securities (the "PCBS") in the principal amounts of HK$657,594,260 to Smart Win and in the principal amounts of HK$420,096,153 to KKR respectively, which are convertible at the initial conversion price of HK$2.10 per conversion share.

On 28 December 2016, BECL exercised its conversion rights and converted an aggregate of 571,153,846 class A CPS in accordance with the terms and conditions of the relevant subscription agreement entered into by the Company (the "Conversion").

Upon the completion of the Issuance and the Conversion, BECL held 72.94% of the Company's total issued share capital.

In the opinion of the directors of the Company, the immediate holding company of the Company is BECL. The intermediate holding company of the Company is BCL. The ultimate holding company of the Company is Beijing Capital Group Ltd. ("Capital Group"), a state-owned enterprise registered in the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been approved and authorised for issue by the Board of Directors on 6 March 2019.

2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and derivative financial liabilities, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS 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 4.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and Amended Standards Adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Annual improvement	Annual Improvements to HKFRS Standards 2015-2017 Cycle
Amendments to HKAS 40	Transfers of investment property

The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed below. The adoption of annual Improvements to HKFRS Standards 2015-2017 Cycle and amendments to HKAS 40 did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(a) *HKFRS 15 Revenue from Contracts with Customers – Impact of adoption*

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

The Group elected to use a modified retrospective approach for transition which allows the Group to recognise the cumulative effects of initially applying HKFRS15 as an adjustment to the opening balance of retained earnings in the 2018 financial year. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

New and Amended Standards Adopted by the Group (Continued)

(a) *HKFRS 15 Revenue from Contracts with Customers – Impact of adoption (Continued)*

HKFRS 15 replaces the provisions of HKAS 18 "Revenue" ("HKAS 18") and HKAS 11 "Construction contracts" ("HKAS 11") that relate to the recognition, classification and measurement of revenue and costs. The effects of the adoption of HKFRS 15 are as follows:

Presentation of incremental costs of obtaining a contract and contract liabilities

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- Contract liabilities for advanced proceeds received from customers of sales of properties contracts in relation to property development activities were previously presented as advanced proceeds received from customers.

- Incremental costs of obtaining a contract recognised in relation to sales commissions were previously presented as trade and other receivables and prepayments – other prepayments.

– Accounting for property development activities

In prior reporting periods, the Group accounted for property development activities when significant risk and rewards of ownership has been transferred to the customers on delivery in its entirety at a single time upon vacant possession and not continuously as construction progresses.

Under HKFRS 15, when the properties that have no alternative use to the Group due to contractual reasons and the Group has an enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied over time in accordance with the input method for measuring progress.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

New and Amended Standards Adopted by the Group (Continued)

(a) *HKFRS 15 Revenue from Contracts with Customers – Impact of adoption (Continued)*

– Accounting for costs incurred to obtain a contract

Following the adoption of HKFRS 15, costs such as sales commissions incurred directly attributable to obtaining a contract, if recoverable, are capitalised and recorded in incremental costs of obtaining a contract.

– Accounting for significant financing component

For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a financing component, if significant.

(i) The impact on the Group's financial position by the application of HKFRS 15 is as follows:

	As at 1 January 2018 Effects of the adoption of HKFRS 15 *RMB'000*
Consolidated statement of financial position (extract)	
Investments accounted for using the equity method	**798**
Inventories	**(6,689)**
Trade and other receivables and prepayments	**(6,091)**
Incremental costs of obtaining a contract	**5,932**
Deferred income tax liabilities	**1,591**
Other payables and accruals	**(823,103)**
Contract liabilities	**809,130**
Current income tax liabilities	**759**
Retained earnings	**5,573**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

New and Amended Standards Adopted by the Group (Continued)

(a) *HKFRS 15 Revenue from Contracts with Customers – Impact of adoption (Continued)*

(ii) The amount by each financial statements line items affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows:

	As at 31 Decembers 2018 Effects of the adoption of HKFRS 15 *RMB'000*
Consolidated statement of financial position (extract)	
Investments accounted for using the equity method	**(1,300)**
Inventories	**(36,689)**
Trade and other receivables and prepayments	**(37,331)**
Incremental costs of obtaining a contract	**16,255**
Deferred income tax liabilities	**12,627**
Other payables and accruals	**(1,112,540)**
Contract liabilities	**1,004,183**
Trade payables	**103**
Retained earnings	**36,562**

	For the year ended 31 December 2018 Effects of the adoption of HKFRS 15 *RMB'000*
Consolidated statement of profit or loss (extract)	
Revenue from contracts with customers	**94,384**
Cost of sales	**29,310**
Selling and marketing expenses	**1,480**
Income tax expenses	**30,507**
Share of losses of investment accounted for using the equity method	**(2,098)**
Profit for the year	**30,989**
Attributable to:	
– Owners of the Company	**30,989**
– Non-controlling interests	**–**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

New and Amended Standards Adopted by the Group (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

(i) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

– Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

– Impairment

From 1 January 2018, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The impact of the change on impairment loss of the Group was immaterial.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

New and Amended Standards Adopted by the Group (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

(i) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

– Derivatives and hedging activities

The Group applies the new hedge accounting model prospectively from 1 January 2018.

Following the adoption of HKFRS 9, the change in fair value of the option contract that relates to the hedged item (aligned time value) is recognised in other comprehensive income and is accumulated in a separate component of equity. The aligned time value at the date of designation of the option as a hedging instrument is amortised on a systematic and rational basis to profit or loss over the period.

The foreign currency basis spread of the instrument is separated and excluded from the designated hedging instrument. The change in fair value of this excluded portion (to the extent it relates to the hedged item) is recognised in other comprehensive income and is accumulated in a separate component of equity. For time-period related hedged items, the excluded portion at the date of designation (to the extent that it relates to the hedged item) is amortised on a systematic and rational basis to profit or loss over the period.

For the Group has no derivatives and no hedging activity in previous years, the above changes has no impact on previous years' financial statements.

(c) Standards and amendments which are not yet effective

The following are new/revised standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods, but have not been early adopted by the Group.

HKFRS16	Leases[i]

(i) Effective for annual periods beginning on or after 1 January 2019

– HKFRS 16 will result in almost all leases being recognised on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB9,096,000 (31 December 2017: RMB11,094,000) (Note 36).

The group will apply the standard from its mandatory adoption date of 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.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective and would be expected to have a material impact on the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SUBSIDIARIES

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) 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.

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SUBSIDIARIES (CONTINUED)

(a) Business combination (Continued)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(b) Merger accounting under common control

The acquisitions of subsidiaries under common control have been accounted for using the merger method of accounting. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirees' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated statement of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 SUBSIDIARIES (CONTINUED)

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 in the accounting policy for subsidiaries below. 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.

3.3 JOINT ARRANGEMENTS

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 ASSOCIATES

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of (loss)/profit of investments accounted for using equity method' in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the statement of profit or loss.

3.5 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within "Other gains-net".

3.6 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.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the 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 assets as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Buildings	20-40 years
Furniture, fixtures & equipment	3-8 yeas
Motor vehicles	3-5 years

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

Any gain or loss on disposal or retirement recognised in the statement of 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 LONG-TERM PREPAID EXPENSE

Long-term prepaid expenses include expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure subtract accumulated amortisation.

3.8 INVESTMENT PROPERTIES

Investment properties, including land use rights and buildings that are held for the purpose of leasing and buildings that is being constructed or developed for the purpose of leasing in future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their cost can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the year in which they are incurred.

The Group adopts the fair value model for subsequent measurement of investment properties. Investment properties are measured at fair value model when the following conditions are met:

(a) There is an active property market where the investment property locates.

(b) The Group can obtain the market price or the relevant information regarding the same type of or similar property market, so as to reasonably estimate the fair value of the investment property.

Investment properties will be valued as at the date of the consolidated statement of financial position and its carrying amount will be adjusted accordingly. The difference between the fair value and the carrying amount will be charged to the current profit or loss account of the Group.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is completed, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any differences resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated statement of profit or loss.

Where fair value of investment properties under construction is not reliably measurable but is expected to be reliably obtained after the construction is completed (including those investment properties under construction acquired initially by the Group), the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required, 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. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset 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 statement of profit or loss in the period in which it arises.

3.10 FINANCIAL ASSETS

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 FINANCIAL ASSETS (CONTINUED)

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains – net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the consolidated statement of comprehensive income and recognised in 'Other gains – net'. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in 'Other gains – net' and impairment expenses are presented as separate line item in the statement of profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 FINANCIAL ASSETS (CONTINUED)

(c) Measurement (continued)

Debt instruments (continued)

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the consolidated statement of comprehensive income within 'other gains – net' in the period in which it arises. Interest income from these financial assets is included in the 'finance income'.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income following the derecognition of the investments. Dividends from such investments continue to be recognised in the consolidated statement of comprehensive income as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in 'Other gains-net' in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through other comprehensive income are not reported separately from other changes in fair value.

(d) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 and HKFRS 15 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy. For details please refer to the annual report of the Group for the year ended 31 December 2017.

3.11 IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and financial assets at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 5.1(c) details how the Group determines whether there has been a significant increase in credit risk.

For all trade and other receivables (excluding loans to related and third parties), the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 FINANCIAL LIABILITIES

(a) *Initial recognition and measurement*

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings (including guaranteed notes).

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

(b) *Subsequent measurement*

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

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 statement of profit or loss 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 included in finance expenses in the statement of profit or loss.

(c) *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 statement of profit or loss.

(d) *Offsetting of financial instruments*

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 DERIVATIVES AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At the inception of the hedging, The group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedges items. The group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 26. Movements in the hedging reserve in shareholders' equity are shown in note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge that qualifies for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When option contracts are used to hedge forecast transactions, the group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within OCI in the costs of hedging reserve within equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Cash flow hedge that qualifies for hedge accounting (Continued)

When forward contracts are used to hedge forecast transactions, the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example through cost of sales).

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

(b) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

3.14 INVENTORIES

(a) Properties under development

Properties under development are intended to be held for sale after completion. Properties under development are stated at the lower of cost and net realisable value. Cost comprises land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period. Net realisable value is determined by reference to management estimates based on the estimated selling price in the ordinary course of business, less the estimated costs to completion, and estimated costs to be incurred in selling the property.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

(b) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value.

Cost is determined by an apportionment of total land and building costs attributable to the unsold properties. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

(c) Merchandise inventories

Merchandise inventories are finished goods purchased from external for retail, which are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods is purchase costs agreed in purchasing contracts. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 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.

3.16 SHARE CAPITAL

Ordinary shares, class A and class B CPS are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.17 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.18 CURRENT AND DEFERRED INCOME TAX

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

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

Deferred tax is provided, using the liability method, on 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, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if 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.

3.19 EMPLOYEE BENEFITS

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for these 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 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.

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 PROVISIONS

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

3.21 FINANCIAL GUARANTEE

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers as financial guarantee contracts.

Financial guarantee liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee liabilities. After initial recognition, such contracts are measured at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement.

Financial guarantee liabilities are derecognised from the statement of financial position when, and only when, the obligation specified in the contract is discharged or cancelled or expired.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 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) *Revenue from sale of completed properties*

Revenues are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or

- creates and enhances an asset that the customer controls as the Group performs; or

- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

For property development and sales contract for which the control of the property is transferred at a point in time, the revenue is recognised at a point in time when the customer obtains the control of the property, that is, when the property is completed and reached check and accept status and is delivered or regarded as delivered to the customer.

(b) *Rental income*

The Group has two types of rental income in investment property operation business.

For lease agreements with no fixed rental amount, the Group recognises income monthly based on certain percentage of the total income of the cooperative lessee.

For lease agreement with fixed rental amount, the Group recognises income monthly on a straight-line basis over the lease period. On the condition that the Group provides rent free period for certain lessee, the Group recognises income by allocating the total rent roll throughout the whole rent period according to straight-line method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 REVENUE RECOGNITION (CONTINUED)

(c) Interest income

Interest income is recognised 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 a shorter period, when appropriate, to the net carrying amount of the financial asset.

(d) Retail income

The Group sells products to individual customers through its retail outlets. Sales of goods are recognised in the accounting period in which the retail outlet sells a product to the customer. Retail sales are usually settled in cash or by credit card.

3.23 DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3.24 OPERATING LEASE

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

3.25 SEGMENT REPORTING

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

3.26 GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

(A) FAIR VALUE OF INVESTMENT PROPERTIES

The Group adopts fair value model for subsequent measurement of investment properties and obtains independent valuations for its investment properties at least annually from an independent professional valuer as a third party. The fair value is determined in accordance with the methods below:

- Current prices (open market quotations) in an active market for the same or similar investment properties;

- When such information above is not available, then use recent trading prices in an active market of the same or similar investment property, and take the factors of situations, dates and locations of transactions, etc. into consideration;

- The Group adopts income capitalisation approach and residual method to determine fair value, based on estimated rental income and development cost to occur in the future and present value of the related cash flows, with considering a properly estimated profit rate to determine fair value. The key estimations are disclosed in Note 17.

Where fair value of investment properties under construction is not reliably measurable but is expected to be reliably obtained after the construction is completed (including those investment properties under construction acquired initially by the Group), the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable.

The valuation of investment properties involves significant judgements and estimates, mainly including determination of valuation techniques and election of different inputs in the models.

The management assessed the reasonableness of key inputs which were used to determine the gross development value under residual approach and under income capitalisation approach, including market rental prices, discount rates, etc., by comparing the market rental prices with comparative cases in active markets and management's records, and by comparing the discount rates with the average discount rates in the industry. The management assessed the reasonableness of other key inputs including interest rates, profit margin rates and development costs to complete, etc. under residual approach, and comparing the development costs to complete with management's budgets.

(B) DEFERRED INCOME TAX

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers its probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5 FINANCIAL RISK MANAGEMENT

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, guaranteed notes, cash and cash equivalents. The main purpose of these financial instruments are to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments is foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on minimising potential adverse effects of these risks, with material impact, on the Group's financial performance. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Foreign exchange risk

The Group mainly operates in Mainland China and Hong Kong with most of the Group's monetary assets, liabilities and transactions principally denominated in HK$, United States dollars ("US$") and RMB. The Group is exposed to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are not denominated in the Group's functional currency.

The Group uses structured cross currency swaps to manage its foreign exchange risk arising from US$-denominated floating rate guaranteed note amounting to US$400,000,000. The Group seeks to apply, wherever possible, hedge accounting to present its financial statements in accordance with the economic purpose of the hedging activity. The Group determines the economic relationship between the hedged items and the hedging instruments by reviewing their critical terms and performing a quantitative assessment as needed. As a result, the Group concludes that the risk being hedged for the hedged items and the risk inherent in the hedging instruments are sufficiently aligned, the hedging instruments have a one-to-one hedge ratio with the hedged items. In view of the nature of the hedging activities, no significant ineffectiveness is expected at inception.

As at 31 December 2018, if RMB had weakened/strengthened by 5% against HK$ and US$ with all other variable held constant, profit before tax for the year of the Group would have been RMB1,506,000 higher/lower (2017: RMB821,000 higher/lower) mainly due to changes in the fair value of cash and cash equivalents.

(b) Interest rate risk

The Group's interest rate risk arises from interest-bearing borrowings and guaranteed notes. Borrowings and guaranteed notes obtained at variable interest rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings and guaranteed notes obtained at fixed rates expose the Group to fair value interest rate risk. The management continuously monitors the interest rate position and makes decisions with reference to the latest market condition.

The interest rate risk of US$-denominated floating route guaranteed note was managed by the use of structured cross currency swap.

At 31 December 2018, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB11,807,000 (2017: RMB7,556,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk

Credit risk is managed on group basis. It mainly arises from cash and cash equivalents, loans to related and third parties and trade and other receivables, etc.

Cash and cash equivalents

The Group expects that there is no significant credit risk associated with cash and cash equivalent since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group considers the probability of default upon initial recognition of, a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

Loans to related and third parties

Over the terms of the loans, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of loan, and adjusts for forward looking macroeconomic data.

The related and third parties have a low risk of default and a strong capacity to meet contractual cash flows, the Group recognise credit loss of loans to related and third parties based on 12 months expected losses.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk (Continued)

Trade and other receivables (excluding loans to related and third parties)

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables (excluding prepayments and loans to related and third parties).

To measure the expected credit losses, trade and other receivables (excluding loans to related and third parties) have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

(d) Liquidity risk

The Group's policies are to maintain sufficient cash and cash equivalents and to have available funding through bank borrowings to meet its working capital requirements.

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

	Within 1 year *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
At 31 December 2018				
Trade payables	**1,662,540**	**–**	**–**	**1,662,540**
Other payables and accruals	**227,924**	**–**	**–**	**227,924**
Borrowings	**1,037,880**	**4,290,986**	**1,322,292**	**6,651,158**
Guaranteed notes	**144,336**	**2,980,703**	**–**	**3,125,039**
	3,072,680	**7,271,689**	**1,322,292**	**11,666,661**
At 31 December 2017				
Trade payables	984,360	–	–	984,360
Other payables and accruals	220,195	–	–	220,195
Borrowings	817,026	2,875,595	–	3,692,621
Guaranteed notes	1,368,250	–	–	1,368,250
	3,389,831	2,875,595	–	6,265,426

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (Continued)

The amounts have not included financial guarantee contracts:

– which the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee for loans procured by the purchasers of the Group's properties. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of one to two years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties;

Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable by providing above guarantees.

(e) Capital management

The primary objectives of the Group's capital management are 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 and the risk characteristic of the underlying assets. 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 is not subject to any externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity. Net debt includes interest bearing bank and other borrowings and guaranteed notes (including accrued interests payables), less cash and cash equivalents and restricted cash. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Total borrowings *(Note 24)*	**5,648,474**	3,205,000
Guaranteed notes (including accrued interests payables) *(Note 25)*	**2,759,458**	1,326,329
	8,407,932	4,531,329
Less: Cash and cash equivalents	**(3,408,491)**	(1,793,200)
Restricted cash	**(33,173)**	(58,110)
Net debt	**4,966,268**	2,680,019
Total equity	**5,510,845**	5,691,868
Gearing ratio	**90%**	47%

The increase of gearing ratio is mainly due to the increase of total borrowings and guaranteed notes.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 FAIR VALUE ESTIMATION

The table below analyses the Group's assets and liabilites carried at fair value as at 31 December 2018 and 2017, by valuation method. The different levels have been defined as follows:

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

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
As at 31 December 2018				
Non-financial assets				
Investment properties	**–**	**–**	**9,271,400**	**9,271,400**
Financial instruments				
Cross currency interest rate swap	**–**	**32,871**	**–**	**32,871**
As at 31 December 2017				
Non-financial assets				
Investment properties	–	–	7,047,200	7,047,200

There were no transfers among level 1, 2 and 3 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices in active markets. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. Specific valuation techniques mainly include discounted cash flow analysis and so on.

The Group obtains independent valuations for its investment properties from an independent professional valuer as a third party. The valuations were based on income capitalisation approach which mainly used unobservable inputs such as market rent, discount rate and based on residual method which mainly used unobservable inputs such as profit rate, and interest rate and so on.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTISED COST

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial liabilities				
Interest-bearing bank and other financial institution borrowings	**2,500,000**	1,190,000	**2,572,769**	1,217,595

Management has assessed that the fair values of cash and cash equivalents, trade payables, financial assets included in trade and other receivables, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The policies and procedures for the fair value measurements of financial instruments are determined by the Group's finance department and are regularly reviewed by senior management.

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 fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of the guaranteed notes is estimated by discounting the expected future cash flows using an equivalent market interest rate for similar guaranteed notes with consideration of the Group's own non-performance risk, the carrying amounts of the guaranteed notes approximate to its fair values.

6 OPERATING SEGMENT INFORMATION

The member of the Board of Directors ("Directors") is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Directors for the purposes of allocating resources and assessing performance.

The Directors considers the business from a product perspective. Management separately considers the performance of property development, investment property development and operation. The segment of property development derive their revenue primarily from sale of completed properties. The segment of investment property development and operation derive their revenue primarily from rental income.

All other segments primarily relate to sale of merchandise inventories and others. These operations are excluded from the reportable operating segments, as these operations are not the key concern of the Directors. The results of these operations are included in the "All other segments".

The Directors assesses the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided to the Directors, except as noted below, is measured in a manner consistent with that in the financial statements.

Total segment assets exclude amounts due from related parties, cash and cash equivalents, restricted cash and deferred income tax assets, all of which are managed on a central basis. Total segment liabilities exclude amounts due to related parties, borrowings, guaranteed notes, deferred income tax liabilities and derivative financial liabilities, all of which are managed on a central basis as well. These are part of the reconciliation to total assets and liabilities of the consolidated statement of financial position.

Transactions between segments are carried out at arm's length. The revenue from external parties reported to the Directors is measured in a manner consistent with that in the consolidated statement of profit or loss.

6 OPERATING SEGMENT INFORMATION (CONTINUED)

	Property development RMB'000	Investment property development and operation RMB'000	All other segments RMB'000	Total RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Year ended 31 December 2018						
Total revenue	**793,311**	**350,848**	**80,479**	**1,224,638**	**–**	**1,224,638**
Inter-segment revenue	**–**	**(598)**	**–**	**(598)**	**–**	**(598)**
Revenue (from external customers) *(i)*	**793,311**	**350,250**	**80,479**	**1,224,040**	**–**	**1,224,040**
Segment operating profit/(loss)	**215,087**	**170,587**	**(165,846)**	**219,828**	**(369)**	**219,459**
Depreciation and amortisation *(Note 8)*	**(99)**	**(18,167)**	**(16,533)**	**(34,799)**	**–**	**(34,799)**
Income tax expense *(Note 12)*	**(165,440)**	**(60,666)**	**(10,543)**	**(236,649)**	**–**	**(236,649)**
Additions to non-current assets (other than deferred income tax assets)	**107**	**2,932,922**	**2,687**	**2,935,716**	**–**	**2,935,716**
Year ended 31 December 2017						
Total revenue	236,339	224,368	51,149	511,856	–	511,856
Inter-segment revenue	–	(333)	–	(333)	–	(333)
Revenue (from external customers)	236,339	224,035	51,149	511,523	–	511,523
Segment operating profit/ (loss)	63,487	397,281	(98,040)	362,728	(170)	362,558
Depreciation and amortisation *(Note 8)*	(82)	–	(14,962)	(15,044)	–	(15,044)
Income tax expense *(Note 12)*	(23,272)	(129,815)	–	(153,087)	–	(153,087)
Additions to non-current assets (other than deferred income tax assets)	49	1,931,559	89,245	2,020,853	–	2,020,853

(i) Revenue from contracts with customers of RMB 94,384,000 are recognised over time in property development segment.

6 OPERATING SEGMENT INFORMATION (CONTINUED)

	Property development RMB'000	Investment property development and operation RMB'000	All other segments RMB'000	Total RMB'000	Inter-segment elimination RMB'000	Total RMB'000
As at 31 December 2018						
Total segment assets	**1,936,843**	**11,782,247**	**396,197**	**14,115,287**	**(14,045)**	**14,101,242**
Total segment liabilities	**(1,542,512)**	**(1,344,441)**	**(58,911)**	**(2,945,864)**	**14,045**	**(2,931,819)**
As at 31 December 2017						
Total segment assets	2,347,467	8,168,124	470,213	10,985,804	(21,198)	10,964,606
Total segment liabilities	(636,134)	(1,279,634)	(39,801)	(1,955,569)	21,198	(1,934,371)

A reconciliation of segment operating profit to profit before income tax is provided as follows:

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Segment operating profit	**219,459**	362,558
Share of losses of investments accounted for using equity method *(Note 19)*	**(4,155)**	(694)
Interest income *(Note 7)*	**36,396**	16,208
Finance costs *(Note 9)*	**(212,509)**	(111,676)
Profit before income tax	**39,191**	266,396

6 OPERATING SEGMENT INFORMATION (CONTINUED)

Reportable and other segments' assets and liabilities are reconciled to total assets and liabilities as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Total segment assets	**14,101,242**	10,964,606
Cash and cash equivalents *(Note 23)*	**3,408,491**	1,793,200
Restricted cash *(Note 23)*	**33,173**	58,110
Deferred income tax assets *(Note 29)*	**16,176**	17,829
Amounts due from related parties	**47,704**	61,766
Total assets per consolidated statement of financial position	**17,606,786**	12,895,511
Total segment liabilities	**(2,931,819)**	(1,934,371)
Borrowings *(Note 24)*	**(5,648,474)**	(3,205,000)
Guaranteed notes *(note 25)*	**(2,759,458)**	(1,326,329)
Amounts due to related parties	**(118,242)**	(167,172)
Deferred income tax liabilities *(Note 29)*	**(605,077)**	(570,771)
Derivative financial liabilities *(Note 26)*	**(32,871)**	–
Total liabilities per consolidated statement of financial position	**(12,095,941)**	(7,203,643)

Assets and liabilities related to contracts with customers:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sales commission for properties	**16,255**	–
Total incremental costs of obtaining a contract	**16,255**	–
Advances from sales of properties	**991,481**	–
Others	**12,702**	–
Total contract liabilities	**1,004,183**	–

6 OPERATING SEGMENT INFORMATION (CONTINUED)

The Company is incorporated in Cayman Islands, with most of its major subsidiaries domiciled in the PRC. Revenues from external customers of the Group are mainly derived in the PRC for the years ended 31 December 2018 and 2017.

As at 31 December 2018, total non-current assets other than deferred income tax assets located in the PRC is RMB11,270,098,000 (2017: RMB8,170,352,000), the total of these non-current assets located in Hong Kong is RMB6,000 (2017: RMB10,000).

For the year ended 31 December 2018, revenue of RMB150,333,000 generated from a single customer from property development segment, which accounts for 12% of the total revenue from external customers. For the year ended 31 December 2017, the Group did not have any single customer with revenue over 10% of the revenue from external customers.

7 REVENUE, OTHER GAINS AND INCOME

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue		
Sale of properties	**793,311**	236,339
Rental revenue of investment properties	**350,250**	224,035
Sale of goods	**80,479**	51,149
	1,224,040	511,523
Other gains – net		
Fair value gains on investment properties	**262,497**	222,394
Gains from government repurchase of land use rights	**–**	69,661
Net foreign exchange gains/(losses)	**911**	(30,759)
Gains from disposal of a subsidiary	**–**	13,123
Others	**307**	(3,730)
	263,715	270,689
Other income		
Government grants	**–**	121,516
Bank interest income	**36,396**	7,725
Interests income from Yulong Hengxin	**–**	8,483
Others	**10,761**	5,164
	47,157	142,888

8 EXPENSES BY NATURE

Expenses by nature comprised cost of sales, selling and marketing expenses and administrative expenses as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of properties sold	**566,528**	160,608
Cost of goods sold	**75,753**	38,644
Property management fee	**104,618**	58,723
Operating leases expense	**10,061**	10,806
Depreciation and amortisation	**34,799**	15,044
Employee benefit expense	**200,852**	98,503
– Wages, salaries and staff welfare	**168,283**	81,589
– *Pension scheme contributions*	**12,602**	6,440
– *Other allowance and benefits*	**19,967**	10,474
Office and traveling expenses	**36,710**	26,825
Consultancy fee	**39,569**	20,871
Advertising and marketing	**131,596**	77,236
Service fee for keepwell deed *(Note 37(b))*	**5,696**	3,900
Business taxes and other surcharges	**61,543**	29,656
Audit services expenses	**1,934**	1,745
Capital market and other non-audit services expenses	**2,269**	–
Others	**7,129**	3,773
	1,279,057	546,334

9 FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest expense on bank borrowings	**275,337**	73,915
Interest expense on related parties borrowings	**–**	22,704
Net fair value loss on derivative financial instruments		
Reclassified from cash flow hedge reserve	**5,865**	–
Reclassified from costs of hedging reserves	**593**	–
Ineffectiveness of cash flow hedges	**4,327**	–
Interest expense on guaranteed notes	**101,822**	70,995
Less: interests capitalised	**(175,435)**	(55,938)
	212,509	111,676

For the year ended 31 December 2018, the capitalisation rate is 5.60% (year ended 31 December 2017: 5.35%), and the finance costs are mainly capitalised into investment properties and properties under development.

10 DIRECTORS' EMOLUMENTS

Directors' remuneration for the year is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Fees	**774**	798
Other emoluments:		
Salaries, allowances and benefits in kind	**1,440**	4,322
Performance related bonuses	**2,500**	1,050
Pension scheme contributions	**96**	182
	4,036	5,554
	4,810	6,352

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to independent non-executive directors during the year were as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Dr. Ngai Wai Fung	**258**	266
Ms. Zhao Yuhong	**258**	266
Mr. He Xiaofeng	**258**	266
	774	798

There were no other emoluments payable to the independent non-executive directors during the year (year ended 31 December 2017: Nil).

10 DIRECTORS' EMOLUMENTS (CONTINUED)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Equity settled share option expense *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2018						
Executive directors						
Mr. Zhong Beichen	–	–	–	–	–	–
Mr. Feng Yujian	–	1,440	2,500	–	96	4,036
	–	1,440	2,500	–	96	4,036
2018						
Non-executive directors						
Mr. Sun Shaolin *(i)*	–	–	–	–	–	–
Mr. Su Jian *(ii)*	–	–	–	–	–	–
Mr. Wang Honghui	–	–	–	–	–	–
Mr. Yang Han Hsiang *(iii)*	–	–	–	–	–	–
Ms. Qin Yi *(i)*	–	–	–	–	–	–
Mr. Wang Hao *(ii)*	–	–	–	–	–	–
Mr. Yang, Paul Chunyao *(iii)*	–	–	–	–	–	–
	–	1,440	2,500	–	96	4,036

(i) In December 2018, Mr. Sun Shaolin resigned as non-executive director, and Ms. Qin Yi was appointed as non-executive director.

(ii) In May 2018, Mr. Su Jian resigned as non-executive director, and Mr. Wang Hao was appointed as non-executive director.

(iii) In February 2018, Mr. Yang Han Hsiang resigned as non-executive director, and Mr. Yang, Paul Chunyao was appointed as non-executive director.

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31 December 2018

10 DIRECTORS' EMOLUMENTS (CONTINUED)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS (CONTINUED)

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Equity settled share option expense *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2017						
Executive directors						
Mr. Zhong Beichen	–	2,239	–	–	91	2,330
Mr. Feng Yujian	–	2,083	1,050	–	91	3,224
	–	4,322	1,050	–	182	5,554
2017						
Non-executive directors						
Mr. Sun Shaolin	–	–	–	–	–	–
Mr. Su Jian	–	–	–	–	–	–
Mr. Wang Honghui	–	–	–	–	–	–
Mr. Yang Han Hsiang	–	–	–	–	–	–
	–	4,322	1,050	–	182	5,554

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (year ended 31 December 2017: Nil).

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiaries undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking		Total	
2018 ***RMB'000***	2017 *RMB'000*	**2018** ***RMB'000***	2017 *RMB'000*	**2018** ***RMB'000***	2017 *RMB'000*
774	798	**4,036**	5,554	**4,810**	6,352

11 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (year ended 31 December 2017: two), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the four (year ended 31 December 2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**8,044**	6,657
Performance related bonuses	**5,470**	1,620
Pension scheme contributions	**302**	189
	13,816	8,466

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December	
	2018	2017
HK$2,000,000 (equivalent to RMB1,726,967) to HK$2,500,000 (equivalent to RMB2,158,708)	**–**	1
HK$2,500,000 (equivalent to RMB2,158,708) to HK$3,000,000 (equivalent to RMB2,590,450)	**–**	1
HK$3,500,000 (equivalent to RMB3,022,191) to HK$4,000,000 (equivalent to RMB3,453,933)	**2**	–
HK$4,000,000 (equivalent to RMB3,453,933) to HK$4,500,000 (equivalent to RMB3,885,675)	**2**	–
HK$4,500,000 (equivalent to RMB3,885,675) to HK$5,000,000 (equivalent to RMB4,317,717)	**–**	1

12 INCOME TAX EXPENSE

Hong Kong corporate are mainly subject to Hong Kong profits tax rate of 16.5%. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit arising in Hong Kong during the year (year ended 31 December 2017: Nil).

PRC corporate income tax has been provided at the rate of 25% (year ended 31 December 2017: 25%) on the taxable profits of the Group's PRC subsidiaries during the year.

The implementation and settlement of PRC land appreciation tax ("LAT") varies among various tax jurisdictions in cities of the PRC. LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land use rights, development and construction expenditure and other related expenditures.

12 INCOME TAX EXPENSE (CONTINUED)

The amount of income tax expense charged to the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax:		
– PRC corporate income tax	**48,748**	34,441
– PRC land appreciation tax	**149,658**	9,170
Deferred income tax	**38,243**	109,476
Total tax charge for the year	**236,649**	153,087

A reconciliation of the tax expense applicable to profit before income tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**39,191**	266,396
Tax calculated at statutory tax rates applicable to profits in the respective countries	**26,263**	75,808
Income not subject to tax	**(271)**	(3,775)
Expenses not deductible for tax	**21,200**	18,186
Gains from internal equity transfer transaction subject to tax	**9,784**	–
Tax losses for which no deferred income tax asset was recognised	**67,430**	35,309
Land appreciation tax	**149,658**	9,170
Income tax effect of land appreciation tax	**(37,415)**	(2,293)
Write-off of previously recognised deferred income tax assets	**–**	20,682
Income tax expense for the year	**236,649**	153,087

13 DIVIDENDS

No dividend has been paid or declared by the Company during the year ended 31 December 2018 (year ended 31 December 2017: Nil).

14 (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted (losses)/earnings per share amount for the year ended 31 December 2018 is based on the loss for the year attributable to owners of the Company of RMB197,698,000 (year ended 31 December 2017: profit of RMB113,159,000), the weighted average number of ordinary shares of 961,538,462 (year ended 31 December 2017: 961,538,462), the weighted average number of CPS of 1,072,928,106 (year ended 31 December 2017: 1,072,928,106) and the weighted average number of shares of 513,185,911 (31 December 2017: 513,185,911) into which the PCBS may be converted, in issue during the year.

The calculations of basic and diluted (losses)/earnings per share are based on:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(Losses)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic and diluted (losses)/earnings per share calculation	**(197,698)**	113,159
	Shares	*Shares*
Weighted average number of ordinary shares	**961,538,462**	961,538,462
Weighted average number of CPS	**1,072,928,106**	1,072,928,106
Weighted average number of shares into which the PCBS may be converted	**513,185,911**	513,185,911
Weighted average number of shares for basic earnings per share	**2,547,652,479**	2,547,652,479
Weighted average number of shares for diluted earnings per share	**2,547,652,479**	2,547,652,479

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Furniture fixtures and equipment *RMB'000*	Motor vehicles and others *RMB'000*	Total *RMB'000*
For the year ended 31 December 2018				
At 1 January 2018				
Cost	10,092	34,388	8,634	53,114
Accumulated depreciation	(841)	(22,537)	(3,446)	(26,824)
Net carrying amount	9,251	11,851	5,188	26,290
At 1 January 2018, net of accumulated depreciation	9,251	11,851	5,188	26,290
Additions	–	9,288	164	9,452
Depreciation provided during the year	(210)	(7,775)	(671)	(8,656)
At 31 December 2018, net of accumulated depreciation	9,041	13,364	4,681	27,086
At 31 December 2018				
Cost	10,092	43,676	8,798	62,566
Accumulated depreciation	(1,051)	(30,312)	(4,117)	(35,480)
Net carrying amount	9,041	13,364	4,681	27,086

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings *RMB'000*	Furniture fixtures and equipment *RMB'000*	Motor vehicles and others *RMB'000*	Total *RMB'000*
For the year ended 31 December 2017				
At 1 January 2017				
Cost	10,092	24,543	8,141	42,776
Accumulated depreciation	(631)	(15,286)	(3,223)	(19,140)
Net carrying amount	9,461	9,257	4,918	23,636
At 1 January 2017, net of accumulated depreciation	9,461	9,257	4,918	23,636
Additions	–	9,845	493	10,338
Depreciation provided during the year	(210)	(7,251)	(223)	(7,684)
At 31 December 2017, net of accumulated depreciation	9,251	11,851	5,188	26,290
At 31 December 2017				
Cost	10,092	34,388	8,634	53,114
Accumulated depreciation	(841)	(22,537)	(3,446)	(26,824)
Net carrying amount	9,251	11,851	5,188	26,290

16 LONG-TERM PREPAID EXPENSES

	Prepaid decoration expenses *RMB'000*	Others *RMB'000*	Total *RMB'000*
For the year ended 31 December 2018			
At 1 January 2018	**73,219**	**8,181**	**81,400**
Additions	**98,805**	**16,494**	**115,299**
Amortisation provided during the year	**(37,779)**	**(7,583)**	**(45,362)**
31 December 2018	**134,245**	**17,092**	**151,337**
For the year ended 31 December 2017			
At 1 January 2017	57,238	3,503	60,741
Additions	33,825	10,892	44,717
Amortisation provided during the year	(17,844)	(6,214)	(24,058)
At 31 December 2017	73,219	8,181	81,400

17 INVESTMENT PROPERTIES

(A) INVESTMENT PROPERTIES UNDER CONSTRUCTION

	Cost *RMB'000*	Fair Value *RMB'000*	Total *RMB'000*
At 1 January 2017	611,894	1,118,000	1,729,894
Additions	1,282,953	1,001,426	2,284,379
Transfer to investment properties in operation	(715,728)	(695,906)	(1,411,634)
Transfer to investment properties under construction at fair value	(185,579)	–	(185,579)
Transfer from investment properties under construction at cost	–	185,579	185,579
Disposal	(88,850)	–	(88,850)
Net gains from fair value adjustment	–	93,901	93,901
At 31 December 2017	904,690	1,703,000	2,607,690
Additions	**1,252,562**	**1,270,034**	**2,522,596**
Transfer to investment properties in operation	**–**	**(1,303,291)**	**(1,303,291)**
Transfer to investment properties under construction at fair value	**(665,556)**	**–**	**(665,556)**
Transfer from investment properties under construction at cost	**–**	**665,556**	**665,556**
Net gains from fair value adjustment	**–**	**123,701**	**123,701**
At 31 December 2018	**1,491,696**	**2,459,000**	**3,950,696**

17 INVESTMENT PROPERTIES (CONTINUED)

(B) INVESTMENT PROPERTIES IN OPERATION

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At 1 January	**5,344,200**	3,795,910
Additions	**26,113**	8,163
Transfer from investment properties under construction	**1,303,291**	1,411,634
Net gains from fair value adjustment	**138,796**	128,493
Closing balance at 31 December	**6,812,400**	5,344,200
Net gains from fair value adjustment	**262,497**	222,394
Rental income	**350,250**	224,035
Direct operating expenses from properties that generated rental income	**(4,085)**	(3,069)
Direct operating expenses from properties that did not generate rental income	**(27)**	(402)

Profit or loss recognised in the statement of profit of loss arose from fair value changes, rental income and operating expenses, etc.

The Group's finance department is in charge of assets' valuation and employs the independent valuer to evaluate the fair value of investment properties. The finance department verifies all valuation results, takes charge of relative accounting treatments and prepares disclosure information of fair values according to verified valuation results.

17 INVESTMENT PROPERTIES (CONTINUED)

(B) INVESTMENT PROPERTIES IN OPERATION (CONTINUED)

Information about fair value measurements using significant unobservable inputs:

Investment Properties	Fair value as at 31 December 2018 *RMB'000*	Valuation techniques	Unobservable inputs		
			Title	Range	Relationship of unobservable inputs to fair value
North region	**1,861,000**	Income capitalisation approach	Discount rate	6% to 7%	The higher discount rate is, the lower fair value
			Market rental price	RMB32 to RMB229 per square meter per month	The higher market rental price is, the higher fair value
	1,315,000	Residual method	Interest rate	4.35%	The higher interest rate is, the lower fair value
			Profit margin rate	1.07% to 10%	The higher profit margin rate is, the lower fair value
Central region	**5,642,400**	Income capitalisation approach	Discount rate	6% to 7%	The higher discount rate is, the lower fair value
			Market rental price	RMB30 to RMB154 per square meter per month	The higher market rental price is, the higher fair value
	453,000	Residual method	Interest rate	4.35%	The higher interest rate is, the lower fair value
			Profit margin rate	12%	The higher profit margin rate is, the lower fair value

17 INVESTMENT PROPERTIES (CONTINUED)

(B) INVESTMENT PROPERTIES IN OPERATION (CONTINUED)

Information about fair value measurements using significant unobservable inputs (Continued):

			Unobservable inputs		
Investment Properties	Fair value as at 31 December 2017 *RMB'000*	Valuation techniques	Title	Range	Relationship of unobservable inputs to fair value
Central region	3,589,240	Income capitalisation approach	Discount rate	6.5% to 7.5%	The higher discount rate is, the lower fair value
			Market rental price	RMB37 to RMB130 per square meter per month	The higher market rental price is, the higher fair value
	801,000	Residual method	Interest rate	4.35% to 4.75%	The higher interest rate is, the lower fair value
			Profit margin rate	15% to 25%	The higher profit rate is, the lower fair value
North region	1,754,960	Income capitalisation approach	Discount rate	7.5% to 8%	The higher discount rate is, the lower fair value
			Market rental price	RMB74 to RMB165 per square meter per month	The higher market rental price is, the higher fair value
	902,000	Residual method	Interest rate	4.35%	The higher interest rate is, the lower fair value
			Profit margin rate	15% to 20%	The higher profit rate is, the lower fair value

18 SUBSIDIARIES

Name	Place of incorporation/ registration and business	Issued ordinary share/registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Percentage of equity attributable to non-controlling interests %	Principal activities
Trade Horizon Global Limited ("Trade Horizon") (貿景環球有限公司)	British Virgin Islands	US$1	100	–	N/A	Guaranteed notes offering
Beijing Chuangxin Jianye Real Estate investment Ltd. ("Chuangxin Jianye") (北京創新建業地產投資有限公司)	Mainland China	RMB50,000,000	–	100	N/A	Investment holding
Shanghai Juque Investment Management Co., Ltd. (上海鉅礐投資管理有限公司)	Mainland China	RMB835,000,000	–	100	N/A	Investment holding
Beijing Hengsheng Huaxing Investment Management Co., Ltd (北京恒盛華星投資管理有限公司)	Mainland China	RMB20,000,000	–	100	N/A	Investment holding and retail
Jiangxi Capital Outlets Development Comapny Limited (江西首創奧特萊斯置業有限公司)	Mainland China	RMB459,000,000	–	100	N/A	Property investment
Hangzhou Capital Outlets Property Limited (杭州首創奧特萊斯置業有限公司)	Mainland China	RMB335,000,000	–	100	N/A	Property investment
Wuhan Capital Juda Outlets Business Management Limited (武漢首創鉅大奧萊商業管理有限公司)	Mainland China	RMB208,000,000	–	99	1	Property investment

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18 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and business	Issued ordinary share/registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Percentage of equity attributable to non-controlling interests %	Principal activities
Jinan Shouju Real Estate Ltd. (濟南首鉅置業有限公司)	Mainland China	RMB210,000,000	–	100	N/A	Property investment and development
Zhengzhou Juxin Outlets Industrial Co., Ltd. (鄭州鉅信奧萊實業有限公司)	Mainland China	RMB200,000,000	–	100	N/A	Property investment
Xian Shouju Commercial Development and Management Co., Ltd. (西安首鉅商業開發管理有限公司)	Mainland China	RMB335,000,000	–	100	N/A	Property investment
Hefei Chuangju Outlets (合肥創鉅奧萊商業管理有限公司)	Mainland China	RMB280,000,000	–	100	N/A	Property investment
Capital Outlets (Kunshan) Business Development Co., Ltd. (首創奧特萊斯(昆山)商業開發有限公司)	Mainland China	RMB118,760,000	–	100	N/A	Property investment
Capital Dongxing (Kunshan) Business Development Co., Ltd. (首創東興(昆山)商業開發有限公司)	Mainland China	RMB100,000,000	–	100	N/A	Property investment
Beijing Capital Outlets Property Investment Fang Shan Ltd. (北京首創奧特萊斯房山置業有限公司)	Mainland China	RMB1,880,057,959	–	100	N/A	Property investment
Zhejiang Outlets Property Real Estate Co., Ltd. ("Zhejiang Outlets") (浙江奧特萊斯置業有限公司)	Mainland China	US$40,000,000	–	100	N/A	Property investment

18 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and business	Issued ordinary share/registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Percentage of equity attributable to non-controlling interests %	Principal activities
Xi'an Capital Xin Kai Real Estate Ltd. ("Xin Kai") (西安首創新開置業有限公司)	Mainland China	US$165,000,000	–	100	N/A	Property development
Kunming Capital Outlet Commercial Management Co., Ltd. (昆明首創奧萊商業運營管理有限公司)	Mainland China	RMB317,700,000	–	85	15	Property investment
Chongqing Shouju Outlet Real Estate Co., Ltd. (重慶首鉅奧特萊斯置業有限公司)	Mainland China	RMB200,000,000	–	100	N/A	Property investment
Qingdao Grand Commercial Management Co., Ltd. (青島鉅大奧萊商業管理有限公司)	Mainland China	RMB210,000,000	–	100	N/A	Property investment
Nanning Grand Outlets Property Investment Co., Ltd. (南寧鉅大奧特萊斯置業有限公司)	Mainland China	RMB350,000,000	–	100	N/A	Property investment
Xiamen Juda Outlets Business Operation Management Limited (廈門鉅大奧萊商業管理有限公司)	Mainland China	RMB330,000,000	–	100	N/A	Property investment

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

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

19.1 INVESTMENT IN JOINT VENTURE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At 1 January	**3,890**	–
Capital injection	**–**	4,000
Share of losses	**(1,505)**	(110)
Downstream transaction offsetting	**(180)**	–
At 31 December	**2,205**	3,890

(a) Following are the details of the joint venture held by the Group as at 31 December 2018, which is unlisted:

Name	Place of incorporation/ registration and business	registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Zanchuang Sports Venues Management Co., Ltd (上海贊創體育場館管理有限公司) ("Shanghai Zanchuang") *(i)*	Shanghai/ Mainland China	RMB10,000,000	–	40%	Sports venues management

(i) According to the articles of association, the Group commits to contribute 40% of equity interests of Shanghai Zanchuang. As at 31 December 2018, the Group has completed capital injection of RMB4,000,000, representing 40% of the paid-in capital of Shanghai Zanchuang. The Group and another shareholder jointly control Shanghai Zanchuang, therefore it is recognised as a joint venture.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

19.2 INVESTMENTS IN ASSOCIATES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At 31 December	**104,125**	40,000
Effect of adoption of HKFRS15 *(Note 3.1)*	**798**	–
At 1 January	**104,923**	40,000
Capital injection	**–**	33,300
Transfer-in from subsidiary	**–**	31,409
Share of losses	**(2,650)**	(584)
Reclassified to assets classified as held-for-sale (b)	**(73,239)**	–
At 31 December	**29,034**	104,125

(a) Following are the details of the associate held by the Group as at 31 December 2018, which is unlisted:

Name	Place of incorporation/ registration and business	Registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Nanchang Huachuang Xinghong Real Estate Co., Ltd. (南昌華創興洪置業有限公司) ("Nanchang Huachuang")	Nanchang/ Mainland China	RMB50,000,000	–	40%	Real estate investment and investment properties operation

(b) Changsha Joy City Investment Co., Ltd. (長沙歡樂天街投資有限公司) ("Changsha Joy City") was an associate of the Group. The Group agreed to dispose all equity interests held in Changsha Joy City with consideration of RMB74,841,000 ("the Disposal"). As the Disposal was expected to complete in 2019, the Group classified the book value of the investment amounted to RMB73,239,000 as assets classified as held-for-sale as at 31 December 2018.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

19.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

(c) Summarised financial information for the associates which is accounted for using the equity method:

	Changsha Joy City		Nanchang Huachuang	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current				
Cash	**N/A**	10,641	**10,000**	24,303
Other current assets (excluding cash)	**N/A**	3,394	**277,283**	236,304
Total current assets	**N/A**	14,035	**287,283**	260,607
Financial liabilities (excluding trade payables)	**N/A**	71,912	**165,772**	155,663
Other current liabilities (including trade payables)	**N/A**	483	**129,728**	92,973
Total current liabilities	**N/A**	72,395	**295,500**	248,636
Non-current				
Assets	**N/A**	327,538	**91,181**	76,142
Financial liabilities	**N/A**	–	**–**	–
Other liabilities	**N/A**	–	**10,380**	10,949
	N/A	327,538	**80,801**	65,193
Net assets	**N/A**	269,178	**72,584**	77,164

The information above reflects the amounts presented in the financial statements of the associate, adjusted for differences in accounting policies between the Group and the associate.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

19.2 INVESTMENTS IN ASSOCIATES (CONTINUED)

(d) Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in the associates.

	Changsha Joy City		Nanchang Huachuang	
	31 December 2018 RMB'000	31 December 2017 RMB'000	**31 December 2018 RMB'000**	31 December 2017 RMB'000
Opening net assets	**N/A**	236,014	**77,164**	–
Effect of adoption of HKFRS15	**N/A**	–	**1,995**	–
Opening net assets after adjustment of HKFRS 15	**N/A**	236,014	**79,159**	–
Net assets upon transfer-in from subsidiary	**N/A**	–	**–**	78,522
Capital injection	**N/A**	33,300	**–**	–
Loss for the year	**N/A**	(136)	**(6,575)**	(1,358)
Closing net assets	**N/A**	269,178	**72,584**	77,164
Carrying value	**N/A**	73,259	**29,034**	30,866

20 INVENTORIES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Properties under development	**982,804**	744,206
Completed properties held for sale	**947,100**	1,466,336
Merchandise inventories	**153,483**	90,177
	2,083,387	2,300,719

21 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	Loans and receivables	
	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Assets as per consolidated statement of financial position		
Financial assets at amortised cost:		
Trade and other receivables and prepayments (excluding prepayments and prepaid taxes)	**305,587**	257,706
Restricted cash *(Note 23)*	**33,173**	58,110
Cash and cash equivalents *(Note 23)*	**3,408,491**	1,793,200
	3,747,251	2,109,016

	Financial liabilities at amortised cost	
	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortised cost:		
Borrowings *(Note 24)*	**5,648,474**	3,205,000
Amounts and interest due to related parties *(Note 28)*	**123,993**	168,840
Trade payables *(Note 27)*	**1,662,540**	984,360
Financial liabilities included in other payables and accruals (excluding other tax payable, advances from customers, etc.)	**109,616**	53,122
Derivative financial liabilities *(Note 26)*	**32,871**	–
Guaranteed notes *(Note 25)*	**2,759,458**	1,326,329
	10,336,952	5,737,651

22 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade receivables	**28,758**	17,234
Prepayments for land use rights and construction costs of investment properties	**295,027**	–
Prepayments to related parties *(Note 37(d))*	**7,109**	2,275
Prepayments of merchandise inventories	**43,029**	35,832
Other prepayments	**12,089**	12,601
Prepaid income tax and land appreciation tax	**53,805**	88,072
Prepaid other taxes	**284,342**	158,805
Deposits for land use rights	**29,000**	–
Other deposits	**45,218**	31,918
Amounts due from related parties *(Note 37(d)(g))*	**49,856**	61,766
Receivables from government repurchase of land use rights	**74,360**	78,515
Other receivables	**78,395**	68,273
	1,000,988	555,291
less: non-current portion – prepayments for land use rights and construction costs of investment properties	**(295,027)**	–
Current portion	**705,961**	555,291

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.

22 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

An aging analysis of the Group's trade receivables as at the end of the reporting period, is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Up to 3 months	**28,758**	16,034
Over 6 months	**–**	1,200
	28,758	17,234

As at 31 December 2017, included in the trade receivables are trade receivables of RMB5,879,000 (Note 37(d)) due from related parties which are receivable within 1 year and represented credit terms similar to those offered to other major customers. As at 31 December 2018, no trade receivables due from related parties.

23 CASH AND CASH EQUIVALENTS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Cash and bank balances	**3,281,793**	1,673,287
Time deposits	**159,871**	178,023
Less:		
Restricted cash	**(33,173)**	(58,110)
Cash and cash equivalents	**3,408,491**	1,793,200

At the end of the reporting period, the cash and bank balances of the Group denominated in HK$ were equivalent to RMB1,543,000(31 December 2017: equivalent to RMB16,429,000) and those denominated in US$ were 28,579,000(31 December 2017: Nil).

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits as at 31 December 2018 were made for less than one month depending on the immediate cash requirements of the Group, and earned interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

24 BORROWINGS

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
Non-current		
Bank borrowings	**4,912,007**	2,545,000
Current		
Current portion of long-term bank borrowings	**306,667**	400,000
Short-term bank borrowings	**429,800**	260,000
	736,467	660,000
	5,648,474	3,205,000

(a) As at 31 December 2018, bank borrowings amounting to RMB750,007,000 (31 December 2017: RMB1,120,000,000) were secured by the land use rights and the buildings of investment properties with carrying amount of RMB2,823,790,000 (31 December 2017: RMB2,765,960,000).

As at 31 December 2018, bank borrowings amounting to RMB90,000,000 (31 December 2017: RMB100,000,000) were secured by the land use rights and the buildings of investment properties with carrying amount of RMB197,941,000 (31 December 2017: RMB102,838,000) and guaranteed by the Company.

As at 31 December 2018, bank borrowings amounting to RMB700,000,000 (31 December 2017: RMB215,000,000) were secured by the land use rights and the buildings of investment properties with carrying amount of RMB1,549,229,000 (31 December 2017: RMB611,000,000) and guaranteed by BCL.

As at 31 December 2018, bank borrowings amounting to RMB900,000,000 (31 December 2017: RMB670,000,000) were secured by the land use rights of investment properties with carrying amount of RMB390,898,000 (31 December 2017: RMB662,682,000) and guaranteed by BCL.

As at 31 December 2018, bank borrowings amounting to RMB2,929,800,000 (31 December 2017: RMB1,000,000,000) were guaranteed by BCL.

As at 31 December 2018, bank borrowings amounting to RMB278,667,000 (31 December 2017: Nil) were guaranteed by the Company.

24 BORROWINGS (CONTINUED)

(b) The maturities of the Group's total borrowings at respective dates of the consolidated statement of financial position are set out as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Total borrowings		
– Within 1 year	**736,467**	660,000
– Between 1 and 2 years	**1,285,000**	240,000
– Between 2 and 5 years	**2,490,007**	2,165,000
– Over 5 years	**1,137,000**	140,000
	5,648,474	3,205,000

(c) All the Group's borrowings are denominated in RMB.

(d) The weighted average effective interest rates at the respective dates of the consolidated statement of financial position are set out as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Related party borrowings	**–**	4.35%
Bank borrowings	**5.51%**	4.82%

(e) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 6 months	**849,800**	100,000
Between 6 and 12 months	**2,298,674**	1,915,000
Between 1 and 5 years	**2,500,000**	1,190,000
	5,648,474	3,205,000

Except for the borrowing listed in Note 5.3, the carrying amounts of borrowings approximate their respective fair values, as the borrowings bore floating interest rates, the impact of discounting is not significant. The fair values are based on cash flows discounted using market rate and are within level 2 of the fair value hierarchy.

25 GUARANTEED NOTES

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
As at 1 January	**1,326,329**	1,323,957
Nominal value of guaranteed notes issued during the year	**2,738,440**	–
Direct transaction costs	**(16,547)**	–
Interest expense	**101,822**	70,995
Interest paid	**(103,049)**	(68,623)
Repayment upon maturity	**(1,300,000)**	–
Exchange rate effect on guaranteed notes	**12,463**	–
	2,759,458	1,326,329
Accrued interests for guaranteed notes, classified as other payables under current liabilities *(Note 28)*	**(23,139)**	(28,064)
	2,736,319	1,298,265
Less: amounts due within one year	**–**	(1,298,265)
Non-current portion	**2,736,319**	–

On 23 July 2015, Rosy Capital Global Limited ("Rosy"), a wholly-owned subsidiary of the Company, issued guaranteed notes amounted to RMB 1,300,000,000, carrying interest at rate of 5.25% per annum, which is payable half-yearly in January and July. This guaranteed notes was fully repaid in July 2018.

On 2 August 2018, Trade Horizon, a wholly-owned subsidiary of the Company, issued floating rate guaranteed notes (the "Notes") amounted to US$ 400,000,000, which is due in August 2021. The Notes bear interest from and including 2 August 2018, payable quarterly in arrear on 2 February, 2 May, 2 August and 2 November in each year.

26 DERIVATIVE FINANCIAL INSTRUMENTS

The group has the following derivative financial instruments:

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
Cash flow hedges		
Cross currency interest rate swap *(i)*	**32,871**	–

(i) On 6 August 2018, Trade Horizon entered into a cross currency interest rate swaps ("CCIRS") to hedge the US$/Chinese Yuan ("CNY") exchange risk and the interest rate risk arising from the US$-denominated floating rate Notes issued on 2 August 2018. According to the contract of the CCIRS, the Group receives US$ floating rate interest and pays CNY fixed rate interest, and receives US$ notional amount and pays CNY equivalent of the notional amount at the strike rate (strike rate varies if the spot rate on the maturity date is above higher cap strike or below the lower cap strike).The CCIRS meets the criteria to apply hedging accounting in accordance with the Group's economic purpose of the hedging activities.

26 DERIVATIVE FINANCIAL INSTRUMENTS(CONTINUED)

(ii) FAIR VALUE MEASUREMENT

Information about the methods and assumptions used in determining the fair value of derivatives are set out below:

Financial Instruments	Valuation techniques	Significant inputs
Cross currency interest rate swaps	Black-Scholes formula	Observable exchange rates, interest rates and volatility levels
	Discounted cash flow	Observable exchange rates and interest rates of respective currency

(iii) HEDGING RESERVES

	Cash flow hedge reserve *RMB'000*	Costs of hedging reserves *RMB'000*	Total *RMB'000*
At 31 December 2017	–	–	–
Other comprehensive loss			
Cash flow hedges			
Net fair value losses	(23,041)	–	(23,041)
Reclassification to profit or loss	(774)	–	(774)
Total cash flow hedges	(23,815)	–	(23,815)
Costs of hedging			
Net fair value losses	–	(12,071)	(12,071)
Amortisation to profit or loss	–	593	593
Total costs of hedging	–	(11,478)	(11,478)
At 31 December 2018	**(23,815)**	**(11,478)**	**(35,293)**

26 DERIVATIVE FINANCIAL INSTRUMENTS(CONTINUED)

(iv) The effects of applying hedge accounting on the Group's financial position and performance are as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Cross currency interest rate swaps		
Carrying amount (liabilities)	**(32,871)**	–
Notional amount	**2,744,800**	–
Maturity date	**26 July 2021**	–
Hedge ratio	**1:1**	–
Changes in fair value of the hedging instrument used for measuring effectiveness	**(23,230)**	–
Changes in fair value of the hedged item used for measuring effectiveness	**23,041**	–
Strike rate	**CNY6.862:US$1**	–
Higher cap	**CNY 7.7: US$1**	–
Lower cap	**CNY 6.2: US$1**	–
US$ floating interest rate receive leg	**3M US$-LIBOR+2.575% per annum based on US$ notional**	–
CNY fixed interest rate pay leg	**5.925% per annum based on CNY notional**	–

27 TRADE PAYABLES

An aging analysis of the Group's trade payables as at the end of the reporting period, is as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 1 year	**1,563,754**	984,323
1 to 2 years	**98,786**	37
	1,662,540	984,360

Included in the trade payables are trade payables of RMB802,000 (31 December 2017: RMB637,000) due to related parties which are repayable within 1 year and represented credit terms similar to those offered by the related party to other major customers.

The trade payables are non-interest-bearing and repayable within the normal operating cycle or on demand.

28 OTHER PAYABLES AND ACCRUALS

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Other tax payable	**19,810**	12,302
Employee benefit payment	**27,228**	19,464
Advances from customers	**–**	823,103
Amounts due to related parties *(Note 37)*	**123,993**	167,073
Accrued interests for guaranteed notes *(Note 25)*	**23,139**	28,064
Accrued interest for bank borrowings	**5,685**	–
Interests payable to related parties *(Note 37)*	**–**	1,767
Guarantee deposits	**76,595**	38,172
Amounts received as government grants	**25,500**	6,000
Collect and remit payment on behalf	**10,742**	7,951
Others	**16,594**	6,999
	329,286	1,110,895

The financial liabilities included in the above balance are non-interest-bearing and normally settled on demand.

29 DEFERRED INCOME TAX

The analysis of deferred income tax assets and liabilities are as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Deferred income tax assets:		
– to be recovered within 12 months	**18,541**	36,755
– to be recovered after more than 12 months	**94,912**	33,915
	113,453	70,670
Deferred income tax liabilities:		
– to be settled within 12 months	**(15,810)**	–
– to be settled after more than 12 months	**(686,544)**	(623,612)
	(702,354)	(623,612)
Offsetting	**97,277**	52,841
Deferred income tax assets after offset	**16,176**	17,829
Deferred income tax liabilities after offset	**(605,077)**	(570,771)
Deferred income tax liabilities (net)	**(588,901)**	(552,942)

29 DEFERRED INCOME TAX (CONTINUED)

The gross movement on the deferred income tax account is as follows:

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
At beginning of the year	**(552,942)**	(442,895)
Effect of adoption of HKFRS15 *(Note 3.1)*	**(1,591)**	–
Disposal	**–**	(571)
Government grants not recognised in the statement of profit or loss	**3,875**	–
Recognised in the statement of profit or loss *(Note 12)*	**(38,243)**	(109,476)
At end of the year	**(588,901)**	(552,942)

The movement in deferred income tax assets and liabilities during the years ended 31 December 2018 and 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Deferred income tax assets			
At 1 January 2017	91,571	29,108	120,679
Charged to the statement of profit or loss	(19,362)	(29,108)	(48,470)
Disposal of a subsidiary	(1,539)	–	(1,539)
At 31 December 2017	70,670	–	70,670
Credited to the statement of profit or loss	38,908	–	38,908
Government grants not recognised in the statement of profit or loss	–	3,875	3,875
At 31 December 2018	**109,578**	**3,875**	**113,453**

29 DEFERRED INCOME TAX (CONTINUED)

	Fair value adjustments arising from acquisition of subsidiaries *RMB'000*	Appreciation of investment properties at fair value *RMB'000*	Others *RMB'000*	Total *RMB'000*
Deferred income tax liabilities				
At 1 January 2017	116,912	419,257	27,405	563,574
(Credited)/charged to the statement of profit or loss	(4,851)	55,599	10,258	61,006
Transfer-out unrealised losses arising from the intra-group transactions	–	–	(968)	(968)
At 31 December 2017	112,061	474,856	36,695	623,612
Effect of adoption of HKFRS15	–	–	1,591	1,591
At 1 January 2018	**112,061**	**474,856**	**38,286**	**625,203**
(Credited)/charged to the statement of profit or loss	**(16,146)**	**65,624**	**27,673**	**77,151**
At 31 December 2018	**95,915**	**540,480**	**65,959**	**702,354**

As at 31 December 2018, deferred tax assets have not been recognised in respect of unused tax losses of RMB336,660,000 (31 December 2017: RMB269,230,000), as they have arisen in the Company and other holding companies, which executing administrative functions and to which employee benefit expense, office and management expense etc. are charged, these companies have been loss-making for some time, and it is not probable that taxable profits will be available against which such tax losses can be utilised.

Deferred income tax liabilities of RMB44,511,000 at 31 December 2018 (31 December 2017: RMB38,661,000)have not been recognised for the withholding tax and other taxes that would be payable on the undistributed earnings of certain subsidiaries. Undistributed earnings totalling RMB445,105,000 at 31 December 2018 (31 December 2017: RMB386,609,000) would be reinvested.

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future profits is probable. These tax losses are going to expire within five years.

30 SHARE CAPITAL

	31 December 2018 RMB'000	31 December 2017 RMB'000
Authorised:		
Ordinary shares		
20,000,000,000 (31 December 2017: 20,000,000,000) ordinary shares of HK$0.01 each	**160,009**	160,009
Class A CPS		
738,130,482 (31 December 2017: 738,130,482) CPS of HK$0.01 each	**5,875**	5,875
Class B CPS		
905,951,470 (31 December 2017: 905,951,470) CPS of HK$0.01 each	**7,575**	7,575
	173,459	173,459
Issued and fully paid:		
Ordinary shares		
961,538,462 (31 December 2017: 961,538,462) ordinary shares of HK$0.01 each	**7,828**	7,828
Class A CPS		
166,976,636 (31 December 2017: 166,976,636) CPS of HK$0.01 each	**1,329**	1,329
Class B CPS		
905,951,470 (31 December 2017: 905,951,470) CPS of HK$0.01 each	**7,575**	7,575
	16,732	16,732

31 CPS

CLASS A CPS

The class A CPS with a par value HK$0.01 each were created as a new class of shares in the share capital of the Company on 22 January 2015. Upon the completion date of the business combination of Xin Kai on 22 January 2015, the Company issued 738,130,482 class A CPS (which are convertible into 738,130,482 ordinary shares of HK$0.01 each in the share capital of the Company at HK$2.66 each to be allotted and issued credited as fully paid by the Company upon the exercise of the conversion rights attaching to the class A CPS), resulting in credits to share capital of approximately RMB5,875,000 (equivalent to approximately HK$7,381,000) with par value of HK$0.01 each and share premium of RMB1,556,817,000 (equivalent to approximately HK$1,956,046,000) respectively.

CLASS B CPS

The class B CPS with a par value HK$0.01 each were created as a new class of shares in the share capital of the Company on 14 December 2016. Upon the completion date of the business combination of Beijing Chuangxin Jianye Real Estate Investment Ltd. and Zhejiang Outlets on 14 December 2016, the Company issued 905,951,470 class B CPS (which are convertible into 905,951,470 ordinary shares of HK$0.01 each in the share capital of the Company at HK$2.78 each to be allotted and issued credited as fully paid by the Company upon the exercise of the conversion rights attaching to the class B CPS), resulting in credits to share capital of approximately RMB7,575,000 (equivalent to approximately HK$9,060,000) with par value of HK$0.01 each and share premium of RMB2,098,232,000 (equivalent to approximately HK$2,509,485,000) respectively.

The above mentioned CPS shall be convertible at the option of its holder, without the payment of any additional consideration therefor, into such number of fully-paid ordinary shares at the conversion ratio of one CPS for one ordinary share. Holders of the CPS will have the right to convert all or such number of CPS into the new ordinary shares at any time after the issuance of the CPS, provided that they may not exercise the conversion rights as to such number of CPS the conversion of which would result in the Company not meeting the minimum public float requirement under Rule 8.08 of the Listing Rules. The CPS shall be non-redeemable by the Company or their holders.

Each class B CPS shall confer on its holder the right to receive a preferred distribution (“Preferred Distribution”) from the date of the issue of class B CPS at a rate of 0.01% per annum on the issue price, payable annually in arrears. Each Preferred Distribution is non-cumulative, and the Company may, in its sole discretion, elect to defer or not to pay the Preferred Distribution.

Besides, each class A and class B CPS shall confer on the holder thereof the right to receive any dividend pari passu with holders of ordinary shares on the basis of the number of ordinary share(s) into which each CPS may be converted on an as converted basis.

32 PCBS

On 28 December 2016, the Company issued PCBS in the principal amounts of HK$657,594,260 to Smart Win and in the principal amounts of HK$420,096,153 to KKR respectively, resulting in credits to PCBS of RMB945,197,000 after deducting the direct professional fee of RMB22,817,000.

The PCBS has no fixed maturity, and can be redeemed by the Company at any time after 30 years from the issuance date, in its sole and absolute discretion. The PCBS shall be convertible at the option of its holders, at the initial conversion price of HK$2.10 per share, into a maximum of 513,185,911 new ordinary shares, provided that the holders of PCBS may not exercise the conversion rights whenever the conversion would result in the Company not meeting the minimum public float requirement under Rule 8.08 of the Listing Rules.

The holder(s) of the PCBS are entitled to receive interest on the outstanding principal amount of the PCBS at a rate equal to 0.01% per annum on a non-cumulative basis, of which the Company shall have the right, exercisable in its sole discretion, to elect to defer the payment, with no interest accrued thereon. The Company cannot pay any dividends, distributions or make any other payment on any ordinary shares, class A CPS and class B CPS or other share capital of the Company unless at the same time it pays to the holders of the PCBS any deferred or unpaid interest payment. In the event that any dividend or distribution is paid on the ordinary shares, CPS (save and except for Preferred Distributions to be paid on the class B CPS at a rate which shall not exceed the rate of interest) or other share capital of the Company, the Company shall pay additional variable interest to the holders of the PCBS representing such dividend or distribution so paid in an aggregate amount equal to (a) the amount of such dividend or distribution per share multiplied by (b) the number of ordinary shares into which the PCBS may be converted, in the same form and on the same date.

As at 31 December 2018, the Group has accrued interest amounting to RMB185,000 (31 December 2017: RMB92,000).

33 CASH FLOW INFORMATION

NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
Net Debt		
Cash and cash equivalents	**3,408,491**	1,793,200
Borrowings due within 1 year	**(736,467)**	(660,000)
Borrowings due after 1 year	**(4,912,007)**	(2,545,000)
Guaranteed notes, due within 1 year	**(23,139)**	(1,326,329)
Guaranteed notes, due after 1 year	**(2,736,319)**	–
Net debt	**(4,999,441)**	(2,738,129)
Cash and cash equivalents	**3,408,491**	1,793,200
Gross debt – fixed interest rates	**(2,500,000)**	(2,516,329)
Gross debt – variable interest rates	**(5,907,932)**	(2,015,000)
Net debt	**(4,999,441)**	(2,738,129)

	Other assets	Liabilities from financing activities				
	Cash and cash equivalents *RMB'000*	Borrowings due within 1 year *RMB'000*	Borrowings due after 1 year *RMB'000*	Guaranteed notes, due within 1 year *RMB'000*	Guaranteed notes, due after 1 year *RMB'000*	Total *RMB'000*
Net debt as at 1 January 2017	1,910,587	(855,000)	(765,000)	(28,438)	(1,295,519)	(1,033,370)
Cash flows	(86,628)	575,000	(2,160,000)	(68,623)	–	(1,740,251)
Foreign exchange adjustments	(30,759)	–	–	–	–	(30,759)
Other non-cash movements	–	(380,000)	380,000	(1,229,268)	1,295,519	66,251
Net debt as at 31 December 2017	1,793,200	(660,000)	(2,545,000)	(1,326,329)	–	(2,738,129)
Cash flows	1,608,671	226,866	(2,670,340)	1,300,000	(2,618,844)	(2,153,647)
Foreign exchange adjustments	6,620	–	–	–	(12,463)	(5,843)
Other non-cash movements	–	(303,333)	303,333	3,190	(105,012)	(101,822)
Net debt as at 31 December 2018	3,408,491	(736,467)	(4,912,007)	(23,139)	(2,736,319)	(4,999,441)

34 COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
Contracted, but not provided for:		
Properties under development	**397,292**	265,023
Investment properties	**561,152**	203,920
	958,444	468,943

35 FINANCIAL GUARANTEES

The Group had the following financial guarantees as at the end of the reporting period:

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
Mortgage facilities for certain purchasers of the Group's properties	**1,375,293**	1,397,714

As at 31 December 2018, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default on mortgage repayments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interests and penalties owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the property purchasers obtain the "property title certificate" which is then pledged with the banks.

36 OPERATING LEASE ARRANGEMENTS

AS LESSOR

The operating lease arrangements of the Group will negotiate for terms ranging from two to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Within one year	**15,150**	3,746
In the second to fifth years, inclusive	**46,990**	12,591
After five years	**4,470**	3,063
	66,610	19,400

AS LESSEE

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of two years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Within one year	**9,096**	11,094
In the second to fifth years, inclusive	**–**	–
	9,096	11,094

37 RELATED PARTY TRANSACTIONS

Apart from the transactions and balances disclosed elsewhere in the financial information, the Group had the following significant transactions with related parties during the reporting period:

(a) PROVISION OF SERVICES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Provision of services		
– Project management services for a subsidiary of BCL	**2,400**	2,400
– Project management services for a joint venture	**299**	–
	2,699	2,400

(b) PURCHASES OF SERVICES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Purchases of services		
– Rental expense to BCL	**1,724**	1,703
– Service fee for keepwell deed to Capital Group *(i)*	**5,696**	3,900
– Rental expense to a joint venture of BCL	**7,972**	7,972

(i) Capital Group provide Keepwell and Liquidity Support Deed to Rosy for the issuance of RMB 1.3 billion guaranteed notes, Rosy would pay Capital Group with an amount of 0.3% of the issued aggregate principal, amounted to RMB 3,900,000 per annum. Rosy recorded administrative expenses amounting to RMB 2,275,000 during the current year. The service fee fall within the exemption for connected transactions pursuant to Rule 14A.90 of the Listing Rules.

Capital Group provide Keepwell and Liquidity Support Deed and the Deed of Equity Interest Purchase Undertaking to Trade Horizon for the issuance of US$ 400,000,000 guaranteed notes, Trade Horizon would pay Capital Group with an amount of 0.3% of the issued aggregate principal, amounted to US$1,200,000 (equivalent to RMB 8,119,000) per annum. Trade Horizon recorded administrative expenses amounting to RMB 3,421,000 during the current year. The service fee fall within the exemption for connected transactions pursuant to Rule14A.90 of the Listing Rules.

(c) PURCHASE OF GOODS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Purchase of goods from a subsidiary of BCL	**6,384**	32,266

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) YEAR-END BALANCES

	31 December 2018 ***RMB'000***	31 December 2017 *RMB'000*
Prepayments to related parties		
– Capital Group	**4,814**	2,275
– Fellow subsidiaries	**302**	–
– a joint venture of BCL	**1,993**	–
	7,109	2,275
Trade payables		
– Fellow subsidiaries *(Note 27)*	**802**	637
Other payables and accruals		
– BCL	**5,654**	1,668
– Fellow subsidiaries	**97**	–
	5,751	1,668
Trade receivables due from related parties		
– BCL	**–**	3,600
– Fellow subsidiaries	**–**	2,279
	–	5,879
Other receivables due from related parties		
– a joint venture of BCL	**1,993**	–
– an associate of BCL	**159**	–
	2,152	–

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) KEY MANAGEMENT COMPENSATION

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kinds	**8,349**	9,493
Performance related bonuses	**8,837**	2,670
Pension scheme contributions	**424**	325
	17,610	12,488

Further details of directors' and the chief executive's emoluments are included in Note 10 and Note 11 to the financial statements.

(f) LOANS DUE TO RELATED PARTIES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
BCL:		
At 1 January	**1,767**	640,114
Loans advanced during the year	**–**	–
Repayments during the year	**–**	(630,000)
Interest charged	**–**	22,704
Interest paid	**(1,767)**	(31,051)
At 31 December	**–**	1,767

(g) AMOUNTS DUE FROM RELATED PARTIES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Fellow subsidiaries:		
At 1 January	**122**	–
Amounts advanced during the year	**–**	122
Repayments during the year	**(122)**	–
At 31 December	**–**	122
An associate of BCL:		
At 1 January	**61,644**	–
Generated from disposal of a subsidiary	**–**	181,572
Amounts advanced during the year	**10,000**	–
Repayments during the year	**(23,940)**	(119,928)
At 31 December	**47,704**	61,644

Amounts due from related parties were unsecured, interest free and repayable on demand.

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(h) AMOUNTS DUE TO RELATED PARTIES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
BCL:		
At 1 January	**1,008**	–
Amounts advanced during the year	**–**	1,008
Repayments during the year	**(1,008)**	–
At 31 December	**–**	1,008
Fellow subsidiaries:		
At 1 January	**17**	16
Amounts advanced during the year	**–**	1
At 31 December	**17**	17
Non-controlling interests:		
At 1 January	**164,380**	–
Amounts advanced during the year	**–**	164,380
Transfer to share capital	**(46,155)**	–
At 31 December	**118,225**	164,380

Amounts due to related parties were unsecured, interest free and repayable on demand.

(i) As at 31 December 2018, BCL provided irrevocable guarantee for the bank borrowings of the Group amounted to RMB4,529,800,000 (31 December 2017: RMB1,885,000,000).

38 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
ASSETS		
Non-current assets		
Property, plant and equipment	**1**	10
Investments to subsidiaries	**91,376**	–
Amounts due from subsidiaries	**845,070**	845,070
	936,447	845,080
Current assets		
Trade and other receivables	**115**	144
Amounts due from subsidiaries	**6,594,132**	5,088,952
Cash and cash equivalents	**187,040**	31,618
	6,781,287	5,120,714
Total assets	**7,717,734**	5,965,794
LIABILITIES		
Current liabilities		
Other payables and accruals	**1,553**	645
Amounts due to subsidiaries	**2,639,583**	1,180,298
Amounts due to BCL	**1,756**	1,668
	2,642,892	1,182,611
Non-current liabilities		
Amounts due to subsidiaries	**91,376**	–
	91,376	–
Total liabilities	**2,734,268**	1,182,611

38 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000
EQUITY			
Equity attributable to equity holders of the Company			
paid-in capital		**16,732**	16,732
PCBS		**945,382**	945,289
Reserves	*(a)*	**4,032,351**	4,032,351
Accumulated losses	*(a)*	**(10,999)**	(211,189)
Total equity		**4,983,466**	4,783,183
Total equity and liabilities		**7,626,359**	5,965,794

(a) RESERVE MOVEMENT OF THE COMPANY

	Share premium account RMB'000	Other reserves RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Total RMB'000
At 1 January 2017	4,032,351	–	48,095	4,080,446
Dividends payable to PCBS holders	–	–	(92)	(92)
Loss for the year	–	–	(259,192)	(259,192)
At 31 December 2017	4,032,351	–	(211,189)	3,821,162
At 1 January 2018	**4,032,351**	**–**	**(211,189)**	**3,821,162**
Dividends payable to PCBS holders	**–**	**–**	**(93)**	**(93)**
Profit for the year	**–**	**–**	**200,283**	**200,283**
At 31 December 2018	**4,032,351**	**–**	**(10,999)**	**4,021,352**

Five-year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial period/years is set out below.

RESULTS

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*	Year ended 31 December 2015 *RMB'000* (Restated)	Nine Months ended 31 December 2014 *RMB'000*
CONTINUING OPERATIONS					
Revenue	**1,224,040**	511,523	997,931	893,872	–
Cost of sales	**(818,440)**	(286,369)	(783,723)	(660,919)	–
Gross profit	**405,600**	225,154	214,208	232,953	–
Fair value gains on investment properties	**262,497**	222,394	431,581	395,112	–
Other gains – net	**1,218**	48,295	17,214	3,219	–
Other income	**47,157**	142,888	12,011	179,529	
Selling and marketing expenses	**(163,082)**	(99,675)	(102,235)	(100,351)	–
Administrative expenses	**(297,535)**	(160,290)	(122,521)	(104,971)	(35,055)
Gain on bargain purchase on acquisition of interests in subsidiaries	**–**	–	–	259,996	–
Operating profit/loss	**255,855**	378,766	450,258	865,487	(35,055)
Finance costs	**(212,509)**	(111,676)	(95,518)	(115,905)	(212)
Share of loss of investment accounted for using the equity method	**(4,155)**	(694)	–	(602)	–
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**39,191**	266,396	354,740	748,980	(35,267)
Income tax expense	**(236,649)**	(153,087)	(126,903)	(137,420)	–
(LOSS)/PROFIT FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS	**(197,458)**	113,309	227,837	611,560	(35,267)
DISCONTINUED OPERATION					
Profit/(loss) for the year/period from discontinued operation	**–**	–	–	19,465	(13,556)
(LOSS)/PROFIT FOR THE YEAR/PERIOD	**(197,458)**	113,309	227,837	631,025	(48,823)
Attributable to:					
Owners of the Company	**(197,698)**	113,159	227,273	631,025	(48,823)
Non-controlling interests	**240**	150	564	–	–
	(197,458)	113,309	227,837	631,025	(48,823)

Five-year Financial Summary

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	Year ended 31 December 2018 ***RMB'000***	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*	Year ended 31 December 2015 *RMB'000* (Restated)	Nine Months ended 31 December 2014 *RMB'000*
TOTAL ASSETS	**17,606,786**	12,895,511	10,596,330	9,253,485	335,581
TOTAL LIABILITIES	**(12,095,941)**	(7,203,643)	(5,019,271)	(6,117,581)	(229,367)
NON-CONTROLLING INTERESTS	**(50,689)**	(4,294)	(2,644)	–	–
	5,460,156	5,687,574	5,574,415	3,135,904	106,214

The financial information of the Group for the nine months ended 31 December 2014 was not restated. The published results and the statement of assets and liabilities may not be comparable.