ZHONG HUA INTERNATIONAL HOLDINGS LIMITED
中華國際控股有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 1064

ANNUAL REPORT 2018

Contents

Drawings appeared in this report are computerized imaging artworks and do not associate with the Group's existing or potential property development projects.

BOARD OF DIRECTORS

Executive Director

Ho Kam Hung

Non-Executive Director

Young Kwok Sui

Independent Non-Executive Directors

Tam Kong, Lawrence
Wong Miu Ting, Ivy
Wong Kui Fai

COMPANY SECRETARY

Tsang Tsz Hung, *CPA*

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2911, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Central
Hong Kong

PRINCIPAL OFFICE IN MAINLAND CHINA

Level 14, Gang Yu Square
Chaodong Road
Chaotianmen
Chongqing

AUDITOR

Ernst & Young
Certified Public Accountants
22nd Floor CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

COMPANY WEBSITE

www.zhonghuagroup.com

LEGAL ADVISERS

As to Hong Kong Law
Hastings & Co.
5th Floor Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

As to Bermuda Law
Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

PROPERTY VALUERS

Savills Valuation and Professional Services Limited
12th Floor, Cityplaza One
1111 King's Road
Taikoo Shing
Hong Kong

Vigers Appraisal and Consulting Limited
27th Floor, Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL BANKERS

Wing Hang Bank (China) Limited,
Guangzhou Branch
Nanyang Commercial Bank, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LISTING AND STOCK CODE

The Main Board of The Stock Exchange of
Hong Kong Limited: 1064

FINANCIAL REVIEW

Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a turnover of HK$51,300,000 (2017: HK$39,330,000) for the year ended 31 December 2018. Net profit for the year attributable to ordinary equity holders of the Company was HK$11,989,000 (2017: HK$18,609,000).

The Group generally financed its operations with internally generated cash flows and banking facilities during the year.

Cash and bank balances of the Group as at 31 December 2018 amounted to HK$91,511,000 (2017: HK$82,084,000).

Borrowings

At 31 December 2018, the Group had outstanding borrowings of HK$80,714,000 (2017: HK$91,059,000) comprising an interest-bearing bank loan amounted to HK$7,137,000 (2017: HK$14,283,000) and a loan from a director amounted to HK$73,577,000 (2017: HK$76,776,000). The Group's interest-bearing bank loans were repayable within one year or on demand.

At 31 December 2018, the secured bank loan of HK$7,137,000 (2017: HK$14,283,000) of the Group bore interest at floating interest rates and was denominated in Renminbi ("RMB").

The Group's gearing ratio as at 31 December 2018 was 0.02 (2017: 0.02), calculated based on the Group's interest-bearing bank borrowings and loan from a director of HK$80,714,000 (2017: HK$91,059,000) over total assets of HK$4,495,261,000 (2017: HK$4,615,251,000). The Group's gearing was maintained at a relatively low level during the year.

Currency structure

The Company's consolidated financial statements are presented in Hong Kong dollars notwithstanding the financial statements of all its operating subsidiaries are presented in Renminbi ("RMB"). Exchange exposure may arise when the revenue, expenses, non-monetary items, assets and liabilities of these operating subsidiaries booked in Renminbi are converted into Hong Kong dollars on consolidation at the Company's group account level. Given the exchange rates between RMB and Hong Kong dollars were relatively stable, the Group had limited exposure to foreign exchange fluctuations throughout the year.

Pledge of assets

The Group had utilised secured bank loan facilities amounting to HK$7,137,000 (2017: HK$14,283,000) as at 31 December 2018. Certain investment properties and trade receivables of the Group were pledged to secure banking facilities utilised by the Group and a third party as set out in notes 13 and 15 to the financial statements. In addition, the Company and one of its substantial shareholders also granted guarantees to these banking facilities.

Contingent liabilities

As at 31 December 2018, guarantees granted by the Group for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK$139,000 (2017: HK$139,000).

FINAL DIVIDEND

The board of directors of the Company (the "Directors") did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

NOTICE OF ANNUAL GENERAL MEETING

Notice of annual general meeting of the Company and related circular to shareholders will be sent to the shareholders of the Company under separate cover.

BUSINESS REVIEW

The Company is an investment holding company. Its subsidiaries are principally engaged in property development, investment and management businesses in Mainland China and have two property interests, one in Chongqing (重慶市) and the other in Guangzhou (廣州市).

Guang Yu Square (港渝廣場), a 15-storey commercial building, is situated at the most prime commercial area at Chaotianmen (朝天門), Yuzhong District (渝中區), Chongqing (重慶市). Chaotianmen is one of the major clothing wholesale points in Chongqing while Guang Yu Square is the most popular men's clothing and footwear wholesale centre in the region.

The property interest in Guangzhou is situated at the most prime commercial area in Yuexiu District (越秀區), Guangzhou. It is planned that the development site will be developed into a versatile grade A commercial building complex with wholesale and exhibition hall facilities and with an objective to be the landmark of the Yuexiu District. The development site is comprised of three contiguous land parcels located at the east of Jiefang Road South (解放南路), to the south of Daxin Road (大新路), to the north of Yede Road (一德路) and to the west of Xieen Road (謝恩里), Yuexiu District and is wholly-owned by Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司) ("GZ Zheng Da") which in turn Zheng Da Real Estate Development Company Limited ("HK Zheng Da"), a private company incorporated in Hong Kong, has 100% interest.

GZ Zheng Da was set up as a Sino-foreign joint venture by HK Zheng Da as the foreign partner and 越秀房地產開發經營公司 ("越秀國企"), a state-owned enterprise, as the sino partner in Guangzhou in December 1993. Since its formation, 越秀國企 has not provided any capital or management support to GZ Zheng Da to a material extent. Pursuant to the terms of the Enforcement Rules of the Joint Venture Agreement (合作合同實施細則) (the "Enforcement Rules") executed in 1994, 越秀國企 agreed to surrender its entire interest in GZ Zheng Da except those benefits specified in the Enforcement Rules and therefore HK Zheng Da assumed 100% interest in GZ Zheng Da.

The Group acquired a 25% indirect interest in HK Zheng Da in December 2007 while the remaining 75% interest to be completed by the Group not later than 30 June 2019 at an aggregate consideration of RMB1,361,100,000 (equivalent to HK1,565,265,000 as at 31 December 2018). Details of the intended acquisition, including terms and conditions, consideration and settlement mechanism, and their amendments thereafter were disclosed in the Company's circular dated 26 November 2007 (the "Acquisition Circular") and the Company's various announcements issued thereafter, the latest of which was issued on 27 June 2018 (primarily refers to the deferment of the long stop date for completion of the acquisition from 30 June 2018 to 30 June 2019).

Pending for re-developing into a commercial complex, the development site is presently comprised of a 2-storey non-permanent commercial podium and a car park for loading and offloading inventory. With a history of over one century for footwear wholesale business in the area surrounding the development site, the commercial podium is the most popular footwear boutique showcase and wholesale centre in Guangzhou.

The development project was initially planned to be completed within a period of 15 years but its progress was interrupted by the modifications of municipal planning in the region by the Yuexiu District People's Government (越秀區人民政府) from time to time in the past years. Pursuant to the terms of the relevant joint venture agreement, the joint venture period of GZ Zheng Da was from 31 December 1993 to 31 December 2008 and could be further extended at the request of either foreign or Sino partner upon maturity. In December 2008, both GZ Zheng Da and its foreign partner, HK Zheng Da, agreed to extend the joint venture period by 15 years with effect from 1 January 2009 in accordance with the provisions of the articles of GZ Zheng Da but 越秀國企, its Sino partner, had become dormant a couple of years ago and therefore its consent could not be obtained. Contemporaneously, it appeared that another enterprise named 越秀房地產開發經營有限公司 ("越房私企"), a privately owned enterprise which acquired certain assets (but interest in GZ Zheng Da not included) from 越秀國企 some years ago, claimed that it had taken up certain interest in GZ Zheng Da from 越秀國企, but that was not the case. As such, in late December 2008, GZ Zheng Da served a writ against 越房私企 at the Guangdong Provincial Guangzhou Municipal Yuexiu District People's Court (廣東省廣州市越秀區人民法院) (the "Yuexiu Court") demanding for the confirmation of disqualification of 越房私企 from the sino partnership (if any) of the subject joint venture. Details of which are described under the section headed "Material Litigations" below.

MATERIAL ACQUISITION UPDATE

The Group entered into a conditional sale and purchase agreement in October 2007 (the "Acquisition Agreement") with the private companies wholly owned by Messrs. Ho Pak Hung, Ho Tsam Hung and Ho Kam Hung (collectively the "Vendors"), pursuant to which, amongst other things, the Vendors agreed to sell, and an indirectly wholly-owned subsidiary of the Company (the "Purchaser") agreed to acquire, 100% equity interest in HK Zheng Da at a consideration of RMB1,814,800,000 (equivalent to HK$2,087,020,000 as at 31 December 2018) (the "Acquisition"). The principal asset held by HK Zheng Da is, via GZ Zhang Da, the entire interest in a property interest situated in Guangzhou. Details of the Acquisition were set out in the Acquisition Circular.

As set out in the Acquisition Circular, completion of the Acquisition should have taken place in four tranches to be completed in different phases on terms as follows:

Tranches	Equity interests in HK Zheng Da represented	Consideration for each tranche (RMB)	Original expected completion date
First Tranche (the "First Tranche")	25%	453,700,000	31 December 2007
Second Tranche (the "Second Tranche")	26%	471,848,000	31 May 2008
Third Tranche (the "Third Tranche")	24%	435,552,000	31 October 2008
Fourth Tranche (the "Fourth Tranche")	25%	453,700,000	31 March 2009
	100%	1,814,800,000	

Pursuant to the terms and conditions of the Acquisition Agreement, the Purchaser could at its sole discretion elect to defer completion of one or more tranches (except the First Tranche) to a date later than the expected completion date of the relevant tranche as mentioned above. If the Purchaser did not complete any of the tranches on or before the relevant expected completion date, the Purchaser was obliged to pay to the Vendors a deferred interest payment (the "Deferred Interest") calculated at the rate of 4% p.a. on the consideration for such tranche for the period commencing from the relevant original expected completion date and ending on and excluding the day when the relevant consideration was settled by the Purchaser or 31 March 2009, whichever the earlier. In the event that the entire Acquisition Agreement did not complete by 31 March 2009 (the "Long Stop Date"), the Acquisition Agreement should lapse (save for any part of completed tranches) and the Purchaser should have no liabilities save for the Deferred Interest obligations.

Completion of the First Tranche took place on 17 December 2007. At 31 March 2009, the Second Tranche, the Third Tranche and the Fourth Tranche were not completed. As such, the Purchaser was obliged to pay to the Vendors the Deferred Interest of the Second Tranche and the Third Tranche, which was HK$25,837,000 in total. No Deferred Interest was required to be paid by the Purchaser in respect of the Fourth Tranche as the original expected completion date for the Fourth Tranche was on 31 March 2009. The Purchaser and the Vendors then executed supplementary agreements thereafter to the effect that the Long Stop Date was further deferred to 30 June 2018.

In June 2018, the Purchaser and the Vendors executed an extension agreement to explore opportunity to arrive any revised terms for the settlement of and the consideration for, and completion timetable in relation to the Acquisition of the remaining 75% indirect interest in HK Zheng Da not later than the revised long stop date which was further deferred to 30 June 2019. If a revised agreement is concluded, it is anticipated that the Acquisition will be financed by debt financing, equity financing, bank borrowings or a combination of the three kinds. As at the date of this report, a revised agreement was not yet concluded between the Purchaser and the Vendors.

If in case the Acquisition lapses on 30 June 2019, no party shall be liable to each other. If this happens, the Group will no longer deem control over HK Zheng Da and its subsidiary and there will be a major accounting adjustment to the consolidated accounts of the Company for the year ending 31 December 2019 to the effect that HK Zheng Da will be regarded as an associated company with a 25% equity interest but not a 25% owned subsidiary of the Company. Further announcement will be made once a concrete decision is made by the Group.

MATERIAL LITIGATIONS

(a) In late December 2008, GZ Zheng Da, an indirect wholly-owned subsidiary of the Company, served a writ against 越房私企 at the Yuexiu Court demanding for the confirmation of disqualification of 越房私企 from the sino partnership (if any) of the subject joint venture. The relevant judgement was granted in July 2009 with rulings endorsing the request made by GZ Zheng Da.

In August 2009, 越房私企 filed an appeal petition (the "Zheng Da Appeal") at the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court"). A hearing was made in October 2009 and no further hearing had been made since then. Both GZ Zheng Da and HK Zheng Da had not yet received a valid judgement in writing issued by the Guangzhou Court in accordance with the relevant PRC laws and due judicial procedures. Further details about the developments of, and events incidental to, the Zheng Da Appeal were disclosed in the Company's announcement dated 25 March 2013.

Since then, both GZ Zheng Da and HK Zheng Da had dialogues with the relevant court officials from time to time and are looking forward to receiving a formal and legally valid verdict, notice or directive in relation to the Zheng Da Appeal to be granted by the Guangzhou Court or its higher court in accordance with the relevant PRC laws and due judicial procedures, but no such verdict or directive was received in proper manner, up to the date of this report.

Taking into account the rulings granted by the Yuexiu Court in July 2009, the facts and legal grounds substantiated at the first hearing of the Zheng Da Appeal, and the opinion given by the PRC legal counsel and advisers, the Company remains optimistic in obtaining a favourable judgement in the Zheng Da Appeal.

(b) In October 2013, the Guangzhou Municipal Administration of National Resources and Property Bureau (廣州市國土資源和房屋管理局) (the "Property Administration Bureau") issued two rulings on property demolition (房屋拆遷決定書) (the "Compensation Rulings") to GZ Zheng Da pertaining to two compensation and resettlement cases for property demolition (房屋拆遷補償安置個案). The Compensation Rulings concluded that GZ Zheng Da was liable to pay an one-off cash compensation in an aggregate amount of approximately RMB27,600,000 (equivalent to HK$31,740,000 as at 31 December 2018) (the "Cash Compensation") to a group of claimants (the "Claimants").

In March 2014, the Guangzhou Municipal People's Government (廣州市人民政府) (the "Guangzhou Government") issued two rulings on administrative review (行政覆議決定書) revoking the Compensation Rulings. As a result, GZ Zheng Da's obligation to pay the Cash Compensation was discharged.

In June 2015, the Guangzhou Court issued two rulings on administrative proceedings (行政裁定書) declining the appeal made by the Claimants against the Guangzhou Government's rulings.

In December 2015, the Guangdong Provincial Higher People's Court (廣東省高級人民法院) (the "Guangdong Court") issued two rulings on administrative proceedings (行政裁定書) to the effect that (i) the Guangzhou Court's rulings were withdrawn; and (ii) the Guangzhou Court was ordered to re-hear the Claimants' appeal against the Guangzhou Government's rulings.

In May 2017, the Guangzhou Railway & Transportation Intermediate Court (廣州鐵路運輸中級法院) (the "Railway Court"), under the direction of Guangdong Court, re-heard the case and declined the appeal made by the Claimants against the Guangzhou Government's rulings. The Claimants then filed a further appeal against the Railway Court's rulings. As at the date of this report, the second appeal (the "Second Appeal") was not yet heard.

Taking into account the latest rulings granted by the Guangzhou Government and the Railway Court, the facts and legal grounds substantiated, and the opinion given by the PRC legal counsel and advisers, the Company remains optimistic in obtaining a favourable judgement to be given to the Group after the hearing of the Second Appeal.

(c) In 2011, two plaintiffs, together with Chongqing Smart Hero Real Estate Development Company Limited (重慶超霸房地產開發有限公司) ("CQ Smart Hero"), an indirect wholly-owned subsidiary of the Company, in its capacity as the third plaintiff, served a writ of summons against a third party (the "Third Party") at the Yuexiu Court in relation to a contract dispute (合同糾紛). The case was subsequently redirected to the Guangzhou Court for trial for the reason of jurisdiction of court. In September 2013, the Guangzhou Court ruled that CQ Smart Hero was liable to pay an accrued interest in an aggregate amount of approximately RMB10,500,000 to the Third Party. Subsequently, CQ Smart Hero, together with two plaintiffs, filed an appeal against the Guangzhou Court's rulings at the Guangdong Court.

In June 2015, the Guangdong Court upheld the Guangzhou Court's rulings but the claim that was to be borne by CQ Smart Hero was reduced to approximately RMB4,200,000. The Guangdong Court's rulings are final and absolute unless being revoked by judicial review (復審).

The PRC legal counsel of CQ Smart Hero was of the view that judicial errors were made in the Guangdong Court's rulings and therefore were justifiable for pursuing judicial review (復審) with an aim to revoke its rulings. However, CQ Smart Hero, after careful and due considerations, concluded that additional management time and legal costs to be incurred would probably override the economic benefits to be derived from a favourable verdict of judicial review, if any, and resolved not to pursue the case further.

In February 2016, the Guangzhou Court confined the claim amount to approximately RMB3,743,000 (approximately HK$4,417,000), and a provision of the same amount was fully made in the Company's consolidated financial statements for the year ended 31 December 2015.

Since then, CQ Smart Hero and the Third Party could not reach consensus on settlement arrangement and both parties sought directions and orders at the Guangzhou Court for enforcement. The claim remained unsettled as at 31 December 2018.

(d) During the year ended 31 December 2015, the Guangzhou Urban Management Integrated Enforcement Bureau Yuexiu Sub-Bureau (廣州市城市管理綜合執法局越秀分局) (the "Enforcement Bureau") issued a ruling on an administrative disposition of illegal erection (違法建築行政處理決定書) (the "Ruling") to GZ Zheng Da to the effect that a 2-storey non-permanent commercial podium situated in the Yuexiu District was required to be demolished by GZ Zheng Da. In the Ruling, the Enforcement Bureau concluded, inter alia, that the subject property was deemed as an illegal erection as its occupancy permit had expired. The Ruling, however, did not elaborate further why the renewal of the occupancy permit was not granted.

Notwithstanding the subject property is classified as non-permanent erection pending for re-development, it had obtained approvals and permits for town planning, construction, inspection, occupancy and fire safety from all relevant government authorities up-to-date and hence its building standards and fire safety are comparable to those standards for permanent erections. In addition, GZ Zheng Da is of the view that the subject property would not be deemed as illegal erection if the occupancy permit could be reasonably renewed as permitted under the relevant laws and regulations and hence the prosecution in question should be immune.

As such, GZ Zheng Da, together with six co-operative parties, served a writ against the Ruling at the Yuexiu Court in November 2015. The petition was declined by the Yuexiu Court in May 2016.

In June 2016, GZ Zheng Da, together with six co-operative parties, hence filed an appeal against the Yuexiu Court's ruling at the Railway Court. In May 2017, the Railway Court revoked both the Yuexiu Court's ruling and the Ruling. In November 2017, the Enforcement Bureau filed an administration petition (行政申訴) at the Guangdong Court with an attempt to overturn the rulings made by the Railway Court. As at the date of this report, the administration petition was not yet heard. Accordingly, the subject non-permanent commercial podium remained its operation as usual.

ALLEGED "LIQUIDATION PETITION" AGAINST GZ ZHENG DA

GZ Zheng Da Corporate Information in public database indicates information of alleged "Liquidation Provisional Filed (清算備案)" ("Alleged Liquidation Provisional Filed")

Pursuant to the Provisional Rules of Public Notice of Corporate Information of the People's Republic of China (中華人民共和國企業信息公示暫行條例) newly enacted in October 2014, the Public Database of National Enterprise Credit Information (Guangdong) (全國企業信用信息公示系統(廣東)) on GZ Zheng Da downloaded in March 2015 revealed certain newly appeared information under the Provisional Filing Information Column (備案信息欄目) viz "Liquidation Information (清算信息)", "Liquidation Officer-In-Charge He Wei (清算負責人何偉)" and "Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所)". With effect from August 2016, the Public Database of National Enterprise Credit Information (Guangdong) (全國企業信用信息公示系統(廣東)) was restructured as the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) with a more user friendly reporting format. Since August 2016, the Guangzhou Administration for Industry and Commerce Bureau (廣州市工商行政管理局) (the "AIC Bureau") ceased to provide public search service for Business Record Information (商事登記信息). The report of GZ Zheng Da downloaded from the new National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) in February 2019 contained similar information as disclosed in former reports including "Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所)". In addition, the new report revealed that the registration status (登記狀態) of GZ Zheng Da was "Enterprise in Operation (in Business) (在營(開業)企業)" and the authorised representative (法定代表人) was "Ho Kam Hung".

According to the Corporate Registration Information Memorandum (企業登記資料包) obtained from the AIC Bureau by GZ Zheng Da (being exclusive information to the subject corporation), a third party namely Guangdong Guoding Law Firm (廣東國鼎律師事務所) ("Guoding") filed an Application Form for Notification of Change (Provisional Filing) of Foreign Investment Enterprise (外商投資企業變更(備案)登記申請書) (the "Application Form"), together with a copy of purported order of the Guangzhou Court (廣東省廣州市中級人民法院決定書) (the "Purported Court Order") as supporting document, to the AIC Bureau without the prior acknowledgment nor consent of GZ Zheng Da in September 2011. The Application Form requested for filing of "Provisional Filing of Member of the Liquidation Group (清算組成員備案)" and "Provisional Filing of Liquidation Officer-In-Charge (清算負責人備案)" in the corporate information database of GZ Zheng Da at the AIC Bureau. Copy of the Purported Court Order stated that "the court has appointed Guoding as the liquidation group to proceed with the liquidation of GZ Zheng Da in accordance with the law (已指定國鼎組成清算組,依法對廣州正大進行清算)".

GZ Zheng Da confirmed to the Company that it had never authorised, appointed or instructed Guoding or He Wei to file or handle such application, nor granted consent to such application thereafter. GZ Zheng Da and HK Zheng Da, being the equity holder of GZ Zheng Da holding 100% interest therein, also confirmed to the Company that they had never been served any statements of instigation of proceedings, notice of summons or notice of judgement, orders (including the Purported Court Order or order of a similar nature) or written judgement(s) in relation to liquidation petition or of a similar nature (the "Purported Liquidation Petition Case") from the Guangzhou Court in accordance with the prevailing PRC laws and regulations and due judicial procedures. Both the Company and GZ Zheng Da further confirmed that they were unable to find any "public official record" about the Purported Liquidation Petition Case (not even the relevant case number) from the official database or public notice board of the Guangzhou Court so far.

According to the Purported Court Order, it appeared that the purported liquidation petition was instituted by 越房私企, a third party neither had any equity or any other interests in GZ Zheng Da nor was a creditor of GZ Zheng Da. Hence, the PRC legal counsel of GZ Zheng Da considered that 越房私企 was unlikely to meet the pre-requisite conditions for filing a liquidation petition against GZ Zheng Da pursuant to the prevailing company laws and regulations of the PRC.

Based on the record and facts known to the Company and GZ Zheng Da and having taken PRC legal advice, both the Company and GZ Zheng Da are of the view that (i) the legal proceedings of the Purported Liquidation Petition Case (if any) do not conform to the legal provisions and judicial procedures in the PRC; (ii) the Purported Court Order (if any) is not effective disposition of the matter to which it purportedly relates and thus is invalid and void; and (iii) the purported authority of the so-called liquidation group of GZ Zheng Da is derived from the Purported Court Order which is invalid and void. Therefore, Guoding does not have the lawful authority to proceed with liquidation of GZ Zheng Da or file corporate information about GZ Zheng Da with the AIC Bureau (or for any other purposes) for and on behalf of GZ Zheng Da.

According to the relevant provisions of the Rules of Administration of Company Registration of the People's Republic of China (中華人民共和國公司登記管理條例) (the "Company Registration Rules"), the provisional filing of liquidation information with the AIC Bureau requires the consent of the subject company (with company chop shown on the application form) and other requisite legal documents, such as company dissolution documents (公司解散證明文件) and compulsory liquidation order (強制清算決定書), as supporting documents. No such supporting documents nor GZ Zheng Da's company chop were found on the Application Form submitted by Guoding. After taking PRC legal advice, both the Company and GZ Zheng Da consider that the Application Form submitted to the AIC Bureau by Guoding violates the relevant provisions of the Company Registration Rules to a material extent and the provisional filing under concern should be rendered "application declined (申請退回)".

The business of GZ Zheng Da remains as usual and GZ Zheng Da's latest tax return was filed in May 2018. Mr. Ho Kam Hung, an executive director of the Company, has been the legal representative of GZ Zheng Da since 1993. According to the categorization made by the AIC Bureau, the status of GZ Zheng Da is regarded as "Enterprise in Operation (in Business) (在營(開業)企業)".

Shareholders of the Company are urged to read the Company's announcement dated 25 March 2013 about the lawful authority of the purported "liquidation group of GZ Zheng Da" in question.

The second and unqualified person appearing on the Demolition Permit and the Demolition Extension Notice

Since 2003, GZ Zheng Da had been granted the Qualified Person for Demolition and Relocation (拆遷人) (the "Qualified Person") (which was required to demonstrate substantial capital resources, property development plan on hand, concrete property demolition and relocation plan pursuant to the provisions of Rules of Management of Urban Property Demolition and Relocation of Guangzhou Municipality (廣州市城市房屋拆遷管理條例) (the "Demolition Management Rules")) and the Qualified Contractor for Demolition and Relocation (拆遷實施單位) (the "Qualified Contractor") (which was required to demonstrate substantial hands-on experience in property demolition and relocation projects and hiring extensive construction and engineering professionals pursuant to the provisions of the Demolition Management Rules) by the Property Administration Bureau to the effect that GZ Zheng Da was empowered to demolish a property located in Yuexiu District, Guangzhou within about one year under the licence of a property demolition and relocation permit (房屋拆遷許可證) (the "Demolition Permit"). Since then, GZ Zheng Da applied for the extension of the Demolition Permit once every year and the Property Administration Bureau customarily renewed the Demolition Permit and the notice of extension of property demolition and relocation (房屋拆遷延期公告) (the "Demolition Extension Notice") every subsequent year.

The Demolition Extension Notices issued since 2014 contained new clauses which included, inter alia, an entity named "the liquidation group of GZ Zheng Da (廣州正大清算組)" (the so-called "Liquidator") as the secondary Qualified Person (第二拆遷人) and the secondary Qualified Contractor (第二拆遷實施單位) in addition to GZ Zheng Da which remained as the primary Qualified Person (第一拆遷人) and primary Qualified Contractor (第一拆遷實施單位). The Demolition Extension Notices also put a remark that "pursuant to the Purported Court Order, the Guangzhou Court nominated Guoding as the liquidation group to proceed with the liquidation of GZ Zheng Da in accordance with the laws, and the demolition activities should be executed by the liquidation group" (collectively the "New Clauses").

GZ Zheng Da confirmed to the Company that it had no knowledge of the New Clauses until the renewal of the said extension notices nor concurred with such New Clauses thereafter and hence raised objection to the Property Administration Bureau about the imposition of the New Clauses. No formal reply had been obtained from the Property Administration Bureau so far.

After seeking PRC legal advice, both the Company and GZ Zheng Da consider that (i) both the Demolition Permits and the Demolition Extension Notices granted to GZ Zheng Da are legally valid permit and notice respectively despite their legal defects; (ii) the Yuexiu Court, the Guangzhou Court and the Property Administration Bureau all accept GZ Zheng Da as a separate legal entity; (iii) GZ Zheng Da remains as the Qualified Person and the Qualified Contractor and therefore is eligible to proceed the demolition and relocation activities pursuant to the Demolition Permit; (iv) the purported authority of the so-called Liquidator is derived from the Purported Court Order which is invalid and void (please refer to the section headed "Alleged Liquidation Provisional Filed" above for further details); (v) the capacity of the so-called Liquidator does not exist until and when Guoding removes the legal representative of GZ Zheng Da; (vi) the so-called Liquidator technically cannot co-exist with GZ Zheng Da to engage in same business activities; (vii) a liquidator is not empowered to engage in the businesses other than those specified under Clause 184 of Companies Law of People's Republic of China (中華人民共和國公司法), which do not include demolition and relocation businesses; (viii) a liquidator does not possess the pre-requisite qualifications (特定資質) and hands-on expertise in demolition and relocation businesses pursuant to the provisions of the Demolition Management Rules; and (ix) the Purported Court Order, if legally enforceable, fundamentally does not provide that "the demolition activities should be executed by the liquidation group".

Since 2014, both the Demolition Permit and the Demolition Extension Notice renewed every subsequent year, including the latest one renewed in November 2018, contained the New Clauses. GZ Zheng Da continued to proceed the demolition and relocation activities as usual.

A Purported Notice issued by the so-called Liquidator

In June 2017, HK Zheng Da and one of its three directors received a notice (告知函) (the "Purported Notice") issued by the so-called Liquidator albeit the operation of GZ Zheng Da remained as usual and normal when the Purported Notice was issued.

The Purported Notice, dated 16 June 2017, was issued by the so-called Liquidator and the addressees are HK Zheng Da and 越房私企 (collectively the "Addressees"). 越房私企 was an independent third party to the Company and its directors and substantial shareholders and their respective associates. HK Zheng Da and one of its three directors received the Purported Notice on or about 21 June 2017.

According to then record downloaded from the official website of AIC Bureau, the shareholders of GZ Zheng Da are HK Zheng Da and 越秀國企. Pursuant to the terms of relevant joint venture agreement (as revised) executed between HK Zheng Da and 越秀國企, HK Zheng Da held 100% attributable interest in GZ Zheng Da.

To the best knowledge and belief and having made all reasonable enquiries, the Company confirms that 越房私企 (i) is not a registered shareholder of GZ Zheng Da; (ii) does not have any attributable interest in GZ Zheng Da; and (iii) is not a creditor of GZ Zheng Da. 越房私企 is not 越秀國企.

The Purported Notice sought to convey, inter alia, the following messages (without prejudice on its validity) to the Addressees: (i) the so-called Liquidator was constituted under a mandate granted by the Guangzhou Court pertaining to a members' compulsory liquidation petition (apparently lodged by 越房私企) (the "Purported Petition"); (ii) the so-called Liquidator was prepared to make submission to the Guangzhou Court for balloting the appointment of appraisal and auction agents to appraise and tender the assets of GZ Zheng Da for auction which include, inter alia, two parcels of land with an aggregate gross area of about 16,800 square metres and a 2-storey non-permanent commercial podium; and (iii) the Addressees were urged to furnish any related information or proposal to the so-called Liquidator within 15 days from the date of the Purported Notice.

To the best knowledge and belief and having made all reasonable enquiries, the Company confirms both GZ Zheng Da and HK Zheng Da have never been served the Purported Liquidation Petition Case (please refer to the section headed "Alleged Liquidation Provisional Filed" above for details) in due legal process in accordance with the relevant laws and regulations of the PRC since 21 January 2009, the date of instituting the Purported Petition.

The Company hence infers that the purported "authority" of the so-called Liquidator may have been derived from what is purportedly an undated court notice (the "Purported Court Notice") downloaded from an unofficial legal database website. According to the Purported Court Notice, the Guangzhou Court purportedly directed a third party to constitute an alleged liquidation group for liquidating GZ Zheng Da. However, as at 31 December 2018 and up to the date of this report, both GZ Zheng Da and HK Zheng Da were unable to trace any "public official record" about the Purported Petition or the Purported Court Notice (not even the relevant case number) in the official public domain of the Guangzhou Court, a circumstance which apparently is not in compliance with usual and normal legal practices. Shareholders of the Company are urged to refer to the Company's announcement dated 25 March 2013 for further information about the legality of the Purported Petition and the Purported Court Notice.

The Purported Notice was the first notice or letter that HK Zheng Da (being the shareholder holding 100% attributable interest in GZ Zheng Da) so far received from the so-called Liquidator, some six years from its alleged constitution in 2011.

Pursuant to the relevant provisions of the PRC laws and regulations, "the liquidation group shall finalise the liquidation within six months from the date of constitution in the case the liquidation is ordered by the People's Court (人民法院). If the liquidation is not yet finalised within six months under particular circumstances, the liquidation group shall apply for extension of its mandate at the People's Court (人民法院)." Hence, if the liquidation group is unable to finalise the liquidation within six months and the extension of mandate is not being granted by the People's Court (人民法院), the liquidation group shall be dissolved by law.

The PRC legal counsel of HK Zheng Da noted that the so-called Liquidator was unable to offer any evidence for the renewal of its mandate (without prejudice on its validity) in separate court proceedings at the Guangzhou Court in or about June 2017.

The PRC legal counsel of HK Zheng Da hence advised as follows: (i) the so-called Liquidator does not possess a valid mandate to proceed with the liquidation of GZ Zheng Da nor to issue the Purported Notice (without prejudice on the legality of the Purported Court Notice); (ii) even if there was a renewal of the so-called Liquidator's mandate, the Purported Notice is in itself legally invalid as it does not mention whether the liquidation proposal (清算方案) has been approved by shareholders (including HK Zheng Da), creditors or the People's Court (人民法院); and (iii) prima facie evidence below demonstrates that GZ Zheng Da continues to operate as usual and normal and is a qualified legal litigant (適格訴訟主體) at the People's Court (人民法院), and hence is not under liquidation.

The Company further elaborates as follows: (i) pending the demolition of to-be-vacant properties and re-development of the existing site into a grade A commercial complex, GZ Zheng Da operates a footwear wholesale and distribution outlet at a 2-storey non-permanent commercial podium erected at the development site and its operation remains usual and normal to-date; (ii) the report of GZ Zheng Da downloaded from the Public Database of National Enterprise Credit Information (Guangdong)(全國企業信用信息公示系統(廣東)) in February 2019 reveals that its registration status is "Enterprise in Operation (in Business) (在營(開業)企業)" and its authorised legal person is Ho Kam Hung (being a director of the Company). The public database on GZ Zheng Da also concurrently reveals the following information under the Provisional Filing Information Column (備案信息欄目) viz "Liquidation Information (清算信息)": Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所) (please refer to section headed "Alleged Liquidation Provisional Filed" above for details); (iii) the annual tax return of GZ Zheng Da for 2018 indicated that the operation of GZ Zheng Da was usual and normal throughout the year ended 31 December 2018; and (iv) the People's Courts (人民法院) in Guangdong continues to recognise GZ Zheng Da as the qualified litigant (適格訴訟主體) to-date.

OUTLOOK

In mid-February 2019, the Sino-US trade talks had encouraging progress with China and the Trump Administration of the United States likely reaching agreements on trade negotiations in late March. If this happens, the economic uncertainty in both China and Hong Kong will be cleared. In anticipation of this possible positive outcome, the stock market in Mainland China has fueled up since Chinese New Year.

Following the relaxation of the deposit reserve ratios by the People's Bank of China in January 2019, the liquidity of money market in Mainland China has been eased to a material extent. This will boost both the domestic consumer market and property market in Mainland China. It is hence forecast that Renminbi will remain be strong in coming year.

The "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" promulgated by the State Council of China in mid-February 2019 maps out the current and future co-operation and development of the Greater Bay Area for the period from now to 2022 in the immediate term and extending to 2035 in the long term. It is anticipated that both Guangzhou and Hong Kong will benefit and become world-class city cluster in coming years.

China will celebrate its 70th national day this year. The Group will take this opportunity to work closely with the Yuexiu District Government and accelerate the re-development momentum of the Group in Yuexiu District, Guangzhou. In Chaotianmen Chongqing, the "Chongqing Raffles" development project (重慶來福仕發展項目), the latest and most spectacular landmark of Chongqing, is expected to be completed by the end of this year. With the close proximity of this new landmark, the Guang Yu Square will encourage its tenants to extend business hours from 4 p.m. to 9 p.m. for attracting more customers.

Having considered these matters, the Directors will keep on an optimistic approach in its property development projects on hand as well as re-mapping its business directions for the coming years and are of the view that the Group should diversify its businesses to tap the opportunities and challenges in the Greater Bay Area and the Belt and Road Initiative.

With strong assets backing and extremely low gearing ratio for the Group's financial position, the Group may take these advantages to explore new business opportunities in 2019 and 2020. The Directors will also strengthen its management expertise and redeploy the Group's resources for meeting these new challenges.

Looking ahead, the Directors are optimistic and confident about the economic prosperity in China as well as the Group's future prospects.

The Directors have pleasure in presenting their report together with their audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 33 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

For details in relation to the business review including an analysis of the Group's performance using financial key performance indicators during the reporting period and prospect of the Group, please refer to pages 3 to 15 and pages 28 to 30 under the section headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report", respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in the annual report, the Directors are not aware of any principal risks and uncertainties of the Group.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the Group's financial position at that date are set out in the financial statements on pages 38 to 108.

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

FIVE YEAR GROUP FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from its audited financial statements, is set out on page 109 of the annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in notes 23 and 24 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for cash distribution and distribution in specie were HK$30,328,000. In addition, in accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK$398,726,000, are distributable in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and supplier were as follows:

(i) the aggregate amount of sales attributable to the Group's four largest customers represented 100% of the total sales for the year. The sales attributable to the Group's largest customer represented 40% of the Group's total sales for the year; and

(ii) the Group had no major supplier due to the nature of principal activities of the Group.

As far as the Directors are aware, neither the Directors, their respective close associates nor any substantial shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's four largest customers.

DIRECTORS

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

Executive Director:

Ho Kam Hung

Non-Executive Director:

Young Kwok Sui

Independent Non-Executive Directors:

Tam Kong, Lawrence
Wong Miu Ting, Ivy
Wong Kui Fai

All non-executive Directors, including independent non-executive Directors, are appointed for a term of one year. In accordance with the Company's bye-laws, all of them shall retire from office by rotation, and, being eligible, will offer themselves for re-election at the Company's annual general meeting.

In accordance with the Company's bye-laws, Wong Miu Ting, Ivy and Wong Kui Fai shall retire from office by rotation, and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence from Tam Kong, Lawerence, Wong Miu Ting, Ivy and Wong Kui Fai, and regards these directors to be independent as at the date of this report.

Details of the profile of the Directors are set on page 31 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for those disclosed in section headed "Connected Transactions" below and note 35 to the financial statements, no transactions, arrangements or contracts of significance in relation to the business of the Group to which the Company or any of the Company's subsidiaries was a party and in which a director nor a connected entity of a director of the Company had a material interest, either directly or indirectly, subsisted as at the end of the reporting period or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who make contributions to the Group's operations and profitability. Further details of the share option scheme are disclosed in note 24 to the financial statements.

At the end of the reporting period and the date of approval of these financial statements, the Company had no share option outstanding under the share option scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of the Directors and chief executive, if any, in the share capital and the underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

The Company:

Name of director and chief executive	Capacity and nature of interest	Number of shares held		Percentage of the Company's share capital
		Long position	Short position	
Ho Kam Hung *(note)*	Through controlled corporations	110,600,000	–	18.26

Note:

Ho Kam Hung is deemed (by virtue of the SFO) to be interested in these shares in the following capacities.

(i) 10,800,000 shares are held by Morcambe Corporation which is beneficially owned by him.

(ii) 87,120,000 shares are held by EC Fair Limited, in which he has 33$^{1}/_{3}$% interest.

(iii) 12,680,000 shares are held by High Rank Enterprises Limited, in which he has approximately 31.6% interest.

Associated Companies:

Name of director and chief executive	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Numbers of shares/equity derivatives held		Capacity and nature of interest	Percentage of the associated corporation's issued share capital
				Long position	Short position		
Ho Kam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	–	Directly beneficially owned	30.13
	China Land Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	–	Directly beneficially owned	30.13

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 33 to the financial statements.

Save as disclosed above, as at 31 December 2018, to the best knowledge of the Directors, none of the Directors and chief executive, if any, had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

CONNECTED TRANSACTIONS

The Company had the following connected transactions, details of which were disclosed in accordance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

(i) On 27 June 2018, the Company entered into an extension agreement with the Vendors (as defined in page 5 of this annual report) to extend the dates of completion of the second, the third and the fourth tranches in relation to the Acquisition (as defined in page 5 of this annual report) from 30 June 2018 to 30 June 2019, while no deferred interest is required for the period of extension. Further details are disclosed in page 98 of this annual report.

(ii) An interest expense of HK$6,005,000 was incurred in respect of a loan from Ho Kam Hung, a Director, during the year. Details of a loan from a director are disclosed in notes 21 and 35 to the financial statements.

(iii) Certain bank loans are secured by a personal guarantee of Ho Pak Hung, a substantial shareholder of the Company (through controlled corporations by virtue of the SFO). Further details are disclosed in note 20 to the financial statements.

(iv) On 26 February 2019, Ho Kam Hung, a Director, entered into an agreement with the Company to indemnify the Company from any potential losses arising from an other receivable of RMB9,706,000 (equivalent to HK$11,162,000). The full amount of the said other receivable has been included in the Company's consolidated statement of financial position as at 31 December 2018. The indemnity covers the period from 1 January 2019 to 31 December 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had about 40 employees and the total staff costs (including Directors' and chief executive's remuneration) accumulated to approximately HK$8.4 million. Remuneration policies are reviewed regularly by the Directors. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective regions in which the Group operates.

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

As at 31 December 2018, the interests and short positions of 5% or more of the share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions:

Name of shareholders	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's share capital
Ye Jia Li *(note 1)*	Interest of spouse	110,600,000	18.26
Ho Tsam Hung *(note 2)*	Through controlled corporations	105,600,000	17.44
Ho Pak Hung *(note 3)*	Through controlled corporations	99,800,000	16.48
Liang Gui Fen *(note 4)*	Interest of spouse	99,800,000	16.48
EC Fair Limited *(notes 2 and 3)*	Directly beneficially owned	87,120,000	14.39
Strong Hero Holdings Limited *(note 5)*	Directly beneficially owned	100,000,000	16.51
Xie Xiaoxiang *(note 5)*	Through controlled corporation	100,000,000	16.51
Hero Grand Investments Limited *(note 6)*	Directly beneficially owned	30,800,000	5.09
Leung Po Wa *(note 6)*	Through controlled corporation	30,800,000	5.09

Notes:

1. Ye Jia Li is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the capacity as the spouse of Ho Kam Hung, a Director.

2. Ho Tsam Hung is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the following capacities:

   (i) 5,800,000 shares are held by Morgan Estate Assets Limited, which is beneficially owned by him.

   (ii) 87,120,000 shares are held by EC Fair Limited, in which he has $33^1/_3$% interest.

   (iii) 12,680,000 shares are held by High Rank Enterprises Limited, in which he has approximately 31.6% interest.

3. Ho Pak Hung is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the following capacities:

   (i) 87,120,000 shares are held by EC Fair Limited, in which he has $33^1/_3$% interest.

   (ii) 12,680,000 shares are held by High Rank Enterprises Limited, in which he has approximately 31.6% interest.

4. Liang Gui Fen is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the capacity as the spouse of Ho Pak Hung.

5. Strong Hero Holdings Limited is wholly-owned by Xie Xiaoxiang.

6. Hero Grand Investments Limited is wholly-owned by Leung Po Wa.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors, whose interests are set out in "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares, underlying shares or debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a property developer, wholesale and retailing premises operator in Mainland China, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution, sewage treatment and disposal of building debris in public domain. Compliance procedures are in place from time to time to ensure adherence to applicable laws, rules and regulations.

During the year under review, so far as the Directors are aware, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Moreover, the management also brought attention to any latest changes in applicable laws, rules and regulations and reminded relevant employees and operation units from time to time.

RELATIONSHIP WITH EMPLOYEES

The Group is committed to establishing a close and caring relationship with its employees.

The Group also provides a fair and safe workplace, promotes diversity to its staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to its employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their roles.

PERMITTED INDEMNITY AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Pursuant to the Company's Bye-laws, all Directors or officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by them as Directors or officers of the Company in defending any proceedings, provided that no fraud or dishonesty were committed by the said persons. Appropriate insurance coverage for the liabilities of the Directors and officers was arranged by the Company during the year in respect of any legal actions which might be taken against them in the execution and discharge of their duties or in relation thereto.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this report, the Company maintained the prescribed amount of public float as required under the Listing Rules at all times up to the date of this report.

AUDITOR

Ernst & Young retires and a resolution for the re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Ho Kam Hung
Executive Director

Hong Kong
26 February 2019

This report describes the Company's corporate governance practices and explains the application of the principles of the code provisions of the Corporate Governance Code (the "Code") (formerly known as the Code on Corporate Governance Practices) as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018 and for the period up to the date of the annual report. The Company, in the opinion of the Directors, complied with the Code throughout the year, except for the following deviation of Code Provision A.4.2 as discussed in "Appointment and Re-election of Directors".

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as the code for securities transactions by the Directors. Amendments will be made to the Model Code from time to time in order to conform with any new amendments made to Appendix 10 of the Listing Rules. Having made specific enquiry to all Directors, the Company confirmed that the Directors have complied with the required standard set out in the aforesaid code throughout the year.

BOARD OF DIRECTORS

The Directors are responsible for determining those matters that are to be retained for full board's sanctions including, but not limited to, overall strategy and long-term objectives, new business opportunities, business plans and financial statements, interim and final results, material acquisitions and disposal of assets, capital projects and commitments, funding and risk management policies, material litigations as well as connected transactions.

The Directors have delegated the day-to-day responsibilities in respect of management and administrative functions to senior management including, but not limited to, implementing and achieving the strategies and objectives set by the Directors as well as overseeing the performance of different operating subsidiaries and monitoring and implementing proper accounting system and internal controls.

The board also has the corporate governance function, which is to determine the policy for the corporate governance of the Company and duties performed by the board under Code Provision D.3.1.

Four regular board meetings were held during the past twelve months. The attendance record of each Director at the said meetings during the past twelve months is set out as follows:

Name	Attended/Eligible to Attend
Executive Director	
Ho Kam Hung	4/4
Non-Executive Director	
Young Kwok Sui	4/4
Independent Non-Executive Directors	
Tam Kong, Lawrence	4/4
Wong Miu Ting, Ivy	4/4
Wong Kui Fai	4/4

During the year ended 31 December 2018, the Directors participated in the following trainings:

Name	Type of Trainings
Executive Director	
Ho Kam Hung	A, B
Non-Executive Director	
Young Kwok Sui	A, B
Independent Non-Executive Directors	
Tam Kong, Lawrence	A, B
Wong Miu Ting, Ivy	A, B
Wong Kui Fai	A, B

A: attending training session provided by the Company.

B: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.

CHAIRMAN AND CHIEF EXECUTIVE

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should be exercised by the different individuals. In order to comply with this provision by spirit, the board meetings of the Company were chaired by the Non-Executive Director or Independent Non-Executive Directors at most of the times during the past twelve months.

Ho Kam Hung, being the Managing Director of the Company, is regarded as performing similar role as a chief executive officer of the Company.

NON-EXECUTIVE DIRECTORS

The terms of office of all Independent Non-Executive Directors, subject to earlier determination or retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws and/or applicable laws and regulations, are fixed for one year renewable on an annual basis.

The Company has received from each of its Independent Non-Executive Directors an annual confirmation of independence and considers that each of them is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the provisions of the bye-laws of the Company, any director appointed by the Company either to fill a casual vacancy or as an addition to the board shall hold office until the forthcoming annual general meeting and shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the Chairman and/or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. However, the Managing Director, though without a specified term, voluntarily retired and offered himself for re-election at the Company's annual general meetings in the past years. The Directors consider that this practice is in line with the spirit of the Code's practice.

AUDIT COMMITTEE

The present members of the Audit Committee are comprised of three Independent Non-executive Directors, Wong Miu Ting, Ivy, as Chairman, Wong Kui Fai and Tam Kong, Lawrence and one Non-Executive Director, Young Kwok Sui. During the past twelve months, the Audit Committee held two regular meetings.

The attendance record of each member at the audit committee meetings during the past twelve months is as follows:

Name of members	Attended/Eligible to Attend
Wong Miu Ting, Ivy *(Chairman)*	2/2
Wong Kui Fai	2/2
Tam Kong, Lawrence	2/2
Young Kwok Sui	2/2

The main duties of the Audit Committee include reviewing the financial information of the Group and overseeing the Group's financial reporting system and internal control procedures.

REMUNERATION COMMITTEE

The Remuneration Committee comprises of three Independent Non-Executive Directors, Tam Kong, Lawrence, as Chairman, Wong Miu Ting, Ivy and Wong Kui Fai, and one Executive Director, Ho Kam Hung.

The attendance record of each member at the remuneration committee meetings during the past twelve months is as follows:

Name of members	Attended/Eligible to Attend
Tam Kong, Lawrence *(Chairman)*	1/1
Ho Kam Hung	1/1
Wong Kui Fai	1/1
Wong Miu Ting, Ivy	1/1

The main duties of the Remuneration Committee include determining remuneration policy for Directors and senior management and reviewing the remuneration package including performance-based remuneration.

NOMINATION COMMITTEE

The Nomination Committee comprises of two Independent Non-Executive Directors, Wong Kui Fai, as Chairman, and Tam Kong, Lawrence, and one Executive Director, Ho Kam Hung.

The attendance record of each member at the nomination committee meetings during the past twelve months is as follows:

Name of members	Attended/Eligible to Attend
Wong *Kui Fai (Chairman)*	1/1
Ho Kam Hung	1/1
Tam Kong, Lawrence	1/1

The main duties of the Nomination Committee include determining policy for nomination of directors and the nomination procedures and the process and criteria to select and recommend candidates for directorship.

The Board has adopted a board diversity policy (the "Board Diversity Policy") and delegated certain duties under the Board Diversity Policy to the Nomination Committee. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board. The Board had reviewed the structure of the Board and is of the opinion that the Board met the requirements under the terms of the Board Diversity Policy.

The Nomination Committee will discuss and review the measurable objectives for implementing the Board Diversity Policy from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained.

INTERNAL CONTROL

The Directors acknowledge their responsibility for the Group's internal control system and through the Audit Committee, conduct reviews on the effectiveness of such system at least annually, covering all material controls, financial, operational and compliance controls and risk management functions. The process used in reviewing the effectiveness of such internal control system includes discussion with management on risk areas identified by management. The purpose of the Group's internal control is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational system so that the Group's objectives can be achieved.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the fees charged to the income statement of the Group for the Group's statutory audit services amounted to HK$2,228,000.

COMPANY SECRETARY

During the year, Tsang Tsz Hung, the Company Secretary of the Company, has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Directors believes that effective communication with the shareholders in a timely basis is essential. Shareholders can, by written requisition to the Board or the Secretary of the Company, to convene an extraordinary general meeting, subject to the provision of the Company's Bye-laws 58.

Shareholders are provided with contact details of the Company, such as telephone number, fax number, email address and postal address in the Company's website www.zhonghuagroup.com, in order to enable them to make any query that they may have with respect to the Company. They can also put forward their proposals at shareholders' meetings through these means subject to the provision as set out in the Company's Bye-Laws.

INVESTOR RELATIONS

There was no significant change in the issuer's constitutional documents during the year. For details of the Company's Bye-laws, shareholders can refer to the announcement dated 21 March 2013 on the website of the Stock Exchange or the Company's website for the bilingual copy of the Bye-Laws.

INTRODUCTION

This report is prepared pursuant to Code 3 of Appendix 27 to the Listing Rules in relation to the Environmental, Social and Governance ("ESG") Report.

The Group is principally engaged in property development, investment and management businesses and has two investment properties in Chongqing and Guangzhou, the PRC. For the year ended 31 December 2018, the Group did not have property development project in progress. The Group's corporate office is situated in Hong Kong. The total headcount of the Group is about 40 as at 31 December 2018.

The management is responsible for evaluating and determining the Group's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control system are in place. This report thus states the Group's ESG management approach, strategy, priorities and objectives and explains how these parameters relate to or affect its business and operations.

Taking into account of headcount of about 40, the management has to balance the efforts and additional resources utilized for ESG management and its cost benefits and contributions to the communities. Materiality and quantitative figures are the thresholds of measurement for the effectiveness of the Group's ESG performance.

ENVIRONMENTAL

The management had a good practice in implementing environmental friendly policies and observed, to a material extent, relevant laws and regulations about energy saving and environmental pollution imposed by the governmental bodies in the past years. For instance, all building and renovation materials, furniture and fixtures, electrical appliances replaced or newly installed were required to comply with the latest specifications and standards imposed by the relevant industrial institutions or governmental bodies. The management also implemented sensible energy saving program and policies from time to time. For instance, most fluorescent tubes and tungsten light bulbs used in the investment properties were replaced with light emitting diode tubes and comparable energy saving lighting appliances. Due to the nature of its business, the hazardous waste and greenhouse gas emission generated by the Group was minimal while water and fuel consumption was not a concern to the Group in the past years.

Given the Group has completed most of its energy saving program a couple of years ago, there was little room for further reduction of air, greenhouse gas and light emission for the year under review unless there are new technologies evolved. The management is also enthusiastic to use novel building materials and electrical appliances with energy saving or environmental friendly features provided that the costs of these novel products were reasonably affordable. The management will use its best endeavor to preserve the environment from time to time.

However, it is hard for the management to monitor the air and light pollution generated by its tenants as most of the tenants are engaged in leather or synthetic fabric footwear wholesale business which footwear products and materials (like glues) may generate hazardous odour or greenhouse gas emission. The management can hardly monitor the lighting consumption habits of its tenants too.

SOCIAL

The Group only has headcount of about 40. The management values all employees and recognises their contributions, and is committed to establishing fair and caring relationship with its employees. Staff turnover rate was extremely low in the past years.

The management admits that its remuneration package is non-competitive with those packages offered by conglomerates or multi-national enterprises, but delivers a fair, comfortable, caring and enjoyable work place to its staff. Other than statutory labour terms and benchmark staff benefits, the Group offers additional fringe benefits to its staff like paid maternity, paternity and funeral leave, paid study and elderly care leave and professional training, overtime allowance and compensation, flexible office hours, free travel packages and bulk purchase discount on selective commodities and health care program. The management also provides allowances and insurance coverage for staff who requires overseas or cross-border travel. In addition, the management respects equal opportunities and family status of its staff. The management never hired child, forced or illegal labour.

All premises under the management or occupation of the Group do comply with the relevant building, fire, and environmental requirements imposed by the relevant laws and regulations from time to time. The management always conducts fire drill at its investment properties. There were no major fire hazards or industrial safety accidents took place in all premises during the year under review. Due to its business nature, the staff's exposure to occupational hazards is remote.

The management always encourages its staff to enroll professional, academic vocational or healthcare related training courses. For instance, the Group's staff attend Chinese acupuncture and therapy course (中醫針灸按蹻運用課程) and obtain 50% reimbursement of the tuition fees upon completion of such course. The management also organises in-house seminars and training courses for its directors and general staff from time to time. The management also grants subsidy to its staff for attending external professional and vocational training courses should circumstances necessitate.

OPERATING PROCEDURES

Due to its business nature, the management did not set up hard and fast rules on supply chain management and product responsibility. However, the management always encourages its tenants and contractors to observe intellectual rights and product safety. The management always respects fair trade contracts.

The management has set up stringent house guidelines about ethics and honesty, bribery, extortion, fraud, money laundering and terrorism. Except the suspected judicial prejudice case encountered by one of the Group's principal subsidiaries (please refer to pages 99 to 103 of this annual report for details), there was no bribery, extortion, money laundering or terrorism case reported during the year under review.

COMMUNITY SERVICE

The management always dedicates its staff and resources to serve the community by means of donations, sponsorship, volunteer services, and organizing "kai fong" events within the community. In Mainland China, governmental endorsement (or no objection) is essential for hosting "kai fong" events like "National Day Gala", "Spring Festival Fire Crackers and Lion Dance Show" and "free distribution of fortune rice".

As part of the civic and patriotic propaganda program, the Group always posts related posters and leaflets issued by the governmental bodies, and invites government officers to present civic and patriotic seminars in its premises. The Group also sponsors events and functions organised by local authorities.

In Hong Kong, the Group's staff participates in volunteer services (while volunteer services are not yet popular in Mainland China) on ad hoc basis to serve the community. With full support of the management (donation matching, usually on dollar-to-dollar basis), the staff also makes donations to those needed from time to time.

DIRECTORS

Executive director

Ho Kam Hung, aged 63, has been appointed as the Managing Director of the Company since October 1997. Mr. Ho has over 30 years' experience in property investment and development, manufacturing, multinational trading and investments in Mainland China and Hong Kong. Mr. Ho has been enthusiastic in community services in Mainland China and is currently the Standing Committee of Guangdong Federation of Industry & Commerce (廣東省工商業聯合會(總商會)), as well as the vice presidents of Guangdong International Overseas Chinese Chamber of Commerce (廣東國際華商會) and Guangdong Chamber of Foreign Investors (廣東外商公會).

Non-executive director

Young Kwok Sui, aged 60, was appointed as an independent non-executive Director in December 2002 and was re-designated as a non-executive Director in March 2006. He holds bachelor degrees in laws and commerce. He is also a solicitor and barrister of the High Court of New Zealand. He has over 30 years' professional and commercial experiences in finance, corporate strategies and property sector.

Independent non-executive directors

Tam Kong, Lawrence, aged 74, was appointed in December 2005 as an independent non-executive Director. He is a seasoned banking and finance professional. He is a member of The Institute of Chartered Secretaries and Administrators, the United Kingdom, and holds a Post-Graduate Diploma in Management Studies from the University of Hong Kong and has completed the Pacific Rim Bankers Program at the University of Washington, Seattle, the United States of America.

Wong Miu Ting, Ivy, aged 57, was appointed in December 2005 as an independent non-executive Director. She holds a Bachelor Degree in Accounting and Financial Management from Loughborough University of Technology, England. She is a Certified Public Accountant (Practising) of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Ms. Wong has over 30 years of experience in auditing and business advisory. She also has experience in the initial public offerings of various companies and has been providing financial advisory services to listed companies in relation to accounting, internal control and financial matters.

Wong Kui Fai, aged 62, was appointed in November 2006 as an independent non-executive Director. He holds a Bachelor Degree in Actuarial Science from University of Kent at Canterbury, England. He has been in the information technology ("IT") field for over 30 years with regional exposure covering the Greater China region and the United States. He had served at senior management levels for a number of multinational e-commerce solutions corporations and IT investment companies with hands-on experience in operations, strategic planning and direct investments. Mr. Wong formerly was the General Manager of Microsoft Hong Kong Limited and is presently actively engaged in mergers and acquisitions of cross border IT investment projects.

EY 安永

To the shareholders of Zhong Hua International Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 38 to 108, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Accounting for Zheng Da Real Estate Development Company Limited ("HK Zheng Da") and its wholly-owned subsidiary, namely 廣州市正大房地產開發有限公司 (Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da") (collectively the "Zheng Da Group")</td></tr>
<tr><td>As at 31 December 2018, the Group had a non-controlling interest of HK$2,174,758,000, which represented 75% of equity interest of the Zheng Da Group. The assessment on whether the Group can account for both HK Zheng Da and GZ Zheng Da as its subsidiaries would significantly affect the Group's revenue and net asset value on consolidation basis. During the year ended 31 December 2018 and as at 31 December 2018, the revenue and total assets contributed by the Zheng Da Group to the Group represented 60% and 81%, respectively.

The Group acquired 25% equity interest in the Zheng Da Group in December 2007, and pursuant to an acquisition agreement pertaining to the Zheng Da Group and related supplemental agreements executed thereafter (the latest of which was executed in June 2018), the Group had the currently exercisable right to acquire the remaining 75% equity interest in the Zheng Da Group anytime on or before 30 June 2019. In addition, the private company which holds the remaining 75% equity interest in the Zheng Da Group, which is controlled by a director and certain substantial shareholders of the Company, has given an undertaking to the Company that its board will abide to all voting instructions proposed by the Group for all resolutions and decisions initiated and made at meetings of both shareholders and board of directors of HK Zheng Da. Accordingly, the Group has (i) power over HK Zheng Da; (ii) exposure or rights to variable returns from its involvement with HK Zheng Da; and (iii) ability to use its power over HK Zheng Da to affect the amount of its returns.</td><td>We assessed the accounting treatment of the investment in the Zheng Da Group and evaluated the Group's control over the Zheng Da Group by, among others, inquiring management, reviewing the related acquisition agreement and supplementary agreements, the minutes of HK Zheng Da and the undertaking given to the Company by the largest shareholder of the Zheng Da Group. We also checked the calculation of non-controlling interests of the Group and assessed related disclosures in the consolidated financial statements.</td></tr>
</table>

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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<tr><td>On that basis, the directors of the Company considered it is appropriate to account for both HK Zheng Da and GZ Zheng Da as subsidiaries of the Group with effect from 17 December 2007, the date of completion of the acquisition of 25% equity interest in the Zheng Da Group. This accounting treatment involved significant management judgement and the amounts involved are material.

Related disclosures about the accounting judgement and the particulars of the Zheng Da Group are included in notes 3 and 33 to the consolidated financial statements.</td><td></td></tr>
<tr><td colspan="2">Fair value estimation of investment properties</td></tr>
<tr><td>As at 31 December 2018, the aggregate fair value of the Group's investment properties was HK$4,340,790,000, which represented 96.6% of the Group's total assets. The estimation of fair value of investment properties requires management's significant judgement. Management, on an annual basis, commissions professional valuers to appraise the fair value of the Group's investment properties, and determines the fair value of these properties with reference to the valuation carried out by the professional valuers.

Related disclosures about the accounting estimation and the fair value measurement of investment properties are included in notes 3 and 13 to the consolidated financial statements.</td><td>We reviewed the objectivity, independence and expertise of the valuers commissioned by the Group and assessed the related data and assumptions being adopted, including unobservable inputs and other estimates, by comparing key valuation parameters including the capitalisation rate and rent with market information. We involved our valuation specialists to assist us in reviewing the valuation methodologies and key valuation parameters on the fair value estimation of investment properties. We also assessed the disclosures relating to the assumptions used in determining the fair values in the consolidated financial statements.</td></tr>
</table>

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Litigations	
As at 31 December 2018, the Group was subject to several legal claims in relation to disputes in respect of (i) an investment in a subsidiary; (ii) a property demolition; and (iii) certain contract disputes. In determining whether provision for these legal claims in dispute is appropriate, management needs to exercise significant judgement with reference to legal advices given by the Group's legal advisors about the estimation of probability that an outflow of resources embodying economic benefits to be required for settling the obligation and an estimation of the amount of the obligation which can be measured reliably at the end of the reporting period. Related disclosures about the accounting judgement and estimates and details of these legal claims are included in notes 3, 33 and 34 to the consolidated financial statements.	We inquired the management for the latest status update on legal proceedings and the related legal letters, considered the opinion and advices on the probable outcome of these legal claims given by the Group's legal advisors, and performed writ searches. We then evaluated the assessment for the legal claims made by the management and assessed the related disclosures in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- 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 Chan Kam Yee.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
26 February 2019

Consolidated Income Statement

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**51,300**	39,330
Other income and gains		**564**	670
Changes in fair value of investment properties	13	**53,520**	127,088
Administrative expenses		**(29,321)**	(26,232)
Finance costs	6	**(6,701)**	(6,890)
PROFIT BEFORE TAX	7	**69,362**	133,966
Income tax expense	10	**(19,093)**	(37,158)
PROFIT FOR THE YEAR		**50,269**	96,808
Attributable to:			
Ordinary equity holders of the Company		**11,989**	18,609
Non-controlling interests		**38,280**	78,199
		50,269	96,808
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**HK$0.02**	HK$0.03
Diluted		**HK$0.02**	HK$0.03

	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR	**50,269**	96,808
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to the income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(134,791)**	234,022
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	**(84,522)**	330,830
Attributable to:		
Ordinary equity holders of the Company	**(28,261)**	87,934
Non-controlling interests	**(56,261)**	242,896
	(84,522)	330,830

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**4,559**	5,028
Investment properties	*13*	**4,340,790**	4,476,000
Total non-current assets		**4,345,349**	4,481,028
CURRENT ASSETS			
Properties held for sale		**35,759**	37,314
Trade receivables	*15*	**9,433**	1,187
Prepayments, deposits and other receivables	*16*	**13,209**	13,638
Cash and bank balances	*17*	**91,511**	82,084
Total current assets		**149,912**	134,223
CURRENT LIABILITIES			
Trade payables	*18*	**(2,008)**	(2,129)
Other payables and accruals	*19*	**(46,026)**	(40,992)
Tax payable		**(52,448)**	(50,173)
Interest-bearing bank borrowings	*20*	**(7,137)**	(6,874)
Total current liabilities		**(107,619)**	(100,168)
NET CURRENT ASSETS		**42,293**	34,055
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,387,642**	4,515,083
NON-CURRENT LIABILITIES			
Loan from a director	*21*	**(73,577)**	(76,776)
Due to a director	*21*	**(183,382)**	(183,840)
Long term other payables	*19*	**(133,645)**	(137,622)
Interest-bearing bank borrowings	*20*	**–**	(7,409)
Deferred tax liabilities	*22*	**(939,744)**	(967,620)
Total non-current liabilities		**(1,330,348)**	(1,373,267)
Net assets		**3,057,294**	3,141,816

	Notes	2018 HK$'000	2017 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*23*	**15,140**	15,140
Reserves	*25*	**867,396**	895,657
		882,536	910,797
Non-controlling interests		**2,174,758**	2,231,019
Total equity		**3,057,294**	3,141,816

Ho Kam Hung
Director

Young Kwok Sui
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to equity holders of the Company							
	Share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 *(note 25)*	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	**15,140**	**398,726**	**80,258**	**137,054**	**279,619**	**910,797**	**2,231,019**	**3,141,816**
Exchange differences related to foreign operations	**–**	**–**	**–**	**(40,250)**	**–**	**(40,250)**	**(94,541)**	**(134,791)**
Profit for the year	**–**	**–**	**–**	**–**	**11,989**	**11,989**	**38,280**	**50,269**
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**(40,250)**	**11,989**	**(28,261)**	**(56,261)**	**(84,522)**
At 31 December 2018	**15,140**	**398,726***	**80,258***	**96,804***	**291,608***	**882,536**	**2,174,758**	**3,057,294**
At 1 January 2017	15,140	398,726	80,258	67,729	261,010	822,863	1,988,123	2,810,986
Exchange differences related to foreign operations	–	–	–	69,325	–	69,325	164,697	234,022
Profit for the year	–	–	–	–	18,609	18,609	78,199	96,808
Total comprehensive income for the year	–	–	–	69,325	18,609	87,934	242,896	330,830
At 31 December 2017	15,140	398,726*	80,258*	137,054*	279,619*	910,797	2,231,019	3,141,816

* *These reserve accounts comprise the consolidated reserves of HK$867,396,000 (2017: HK$895,657,000) in the consolidated statement of financial position.*

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**69,362**	133,966
Adjustments for:			
Finance costs	*6*	**6,701**	6,890
Interest income	*7*	**(303)**	(168)
Depreciation	*7*	**270**	270
Changes in fair value of investment properties	*7*	**(53,520)**	(127,088)
		22,510	13,870
Increase in trade receivables		**(8,656)**	(36)
Decrease/(increase) in prepayments, deposits and other receivables		**(118)**	53
Increase/(decrease) in trade payables		**(34)**	198
Increase in other payables and accruals		**9,212**	5,665
Exchange differences on translation of foreign operations		**101**	(58)
Cash generated from operations		**23,015**	19,692
Interest received		**303**	168
Interest paid	*6*	**(696)**	(1,136)
Overseas taxes paid		**(1,468)**	(790)
Net cash flows from operating activities		**21,154**	17,934
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to investment properties		**–**	(399)
Increase in time deposits with original maturity of more than three months when acquired		**(44)**	(2,400)
Net cash flows used in investing activities		**(44)**	(2,799)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bank loans		**(6,836)**	(8,870)
Increase/(decrease) in an amount due to a director		**(1,754)**	1,925
Increase in long term other payables		**652**	1,024
Net cash flows used in financing activities		**(7,938)**	(5,921)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**13,172**	9,214
Cash and cash equivalents at beginning of year		**79,684**	65,169
Effect of foreign exchange rate changes		**(3,687)**	5,301
CASH AND CASH EQUIVALENTS AT END OF YEAR		**89,169**	79,684

	Notes	2018 HK$'000	2017 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*17*	**89,169**	79,684
Time deposits	*17*	**2,342**	2,400
Cash and bank balances as stated in the consolidated statement of financial position		**91,511**	82,084
Time deposits with original maturity of more than three months when acquired		**(2,342)**	(2,400)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**89,169**	79,684

1. CORPORATE INFORMATION

Zhong Hua International Holdings Limited (the "Company") was incorporated in Bermuda on 23 September 1997 as an exempted company with limited liability under the Bermuda Companies Act 1981.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. During the year, the principal office of the Company in Hong Kong was located at Suite 2911, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Central, Hong Kong.

The principal activity of the Company has not changed during the year and was investment holding. The principal activities of the Company's subsidiaries are set out in note 33 to the financial statements. There were no significant changes in the nature of the principal activities of the subsidiaries during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") 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:

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

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the consolidated income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the consolidated income statement 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendments to HKFRS 4 and *Annual Improvements to HKFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments replaces* HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has recognised the transition adjustments against the applicable opening balances at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39. The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement		ECL	HKFRS 9 measurement	
	Category	Amount	Amount	Amount	Category
		HK$'000	HK$'000	HK$'000	
Financial assets					
Trade receivables	L&R[1]	1,187	–	1,187	AC[2]
Financial assets included in prepayments, deposits and other receivables	L&R[1]	13,439	–	13,439	AC[2]
Cash and bank balances	L&R[1]	82,084	–	82,084	AC[2]
		96,710	–	96,710	

There was no significant impact from replacing the aggregate opening impairment allowance under HKAS 39 with ECLs allowances under HKFRS 9 on the above financial assets as at 1 January 2018.

	HKAS 39 measurement		HKFRS 9 measurement	
	Category	Amount	Amount	Category
		HK$'000	HK$'000	
Financial liabilities				
Trade payables	AC[2]	(2,129)	(2,129)	AC[2]
Financial liabilities included in other payables and accruals	AC[2]	(27,034)	(27,034)	AC[2]
Loan from a director	AC[2]	(76,776)	(76,776)	AC[2]
Due to a director	AC[2]	(183,840)	(183,840)	AC[2]
Long term other payables	AC[2]	(137,622)	(137,622)	AC[2]
Interest-bearing bank borrowings	AC[2]	(14,283)	(14,283)	AC[2]
		(441,684)	(441,684)	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. The initial application of HKFRS 15 has had no effect on the timing and measurement of revenue recognition as at 1 January 2018.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$3,290,000 and lease liabilities of HK$3,162,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained profits.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

Business combinations and goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

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

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

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

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

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

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

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

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

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

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

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

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

Impairment of non-financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

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 income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment 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 income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Land and buildings	Over the lease terms
Leasehold improvements	20%
Equipment	20%
Computer and office equipment, furniture and fixtures	20%
Motor vehicles	20%

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings held to earn income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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

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

Properties held for sale

Properties held for sale, consisting of completed properties intended for sale, are classified as current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other costs attributable to such properties. Net realisable value is determined by directors with reference to the prevailing market prices on an individual property basis.

Leases

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

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables

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

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

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

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

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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 income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 income statement.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

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 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 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.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

Dividend income derived from the Company's subsidiaries in Mainland China is subject to a withholding tax under the prevailing tax rules and regulations of the People's Republic of China (the "PRC").

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Sales of completed properties held for sale

Revenue from sales of completed properties held for sale is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other 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.

Revenue recognition (applicable before 1 January 2018)

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:

(i) from the sale of completed properties held for sale, when all of the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;

(ii) income from letting of investment properties, on a time proportion basis over the lease terms; and

(iii) interest income, on an accrual basis using the effective interest rate 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.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors of the Company) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("Equity-settled Transactions").

The cost of Equity-settled Transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

The cost of Equity-settled Transactions is recognised in employee benefit expenses, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for Equity-settled Transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of these employees' basic salaries and are charged to the income statement 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 Group's subsidiaries in Mainland China are required to participate in the employee retirement scheme operated by the relevant local government bureau in Mainland China and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages for those eligible employees.

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.

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independent of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Impairment of assets

Management's judgement is required in the area of asset impairment, particularly in assessing whether: (1) an event has occurred that may affect asset values; (2) the carrying value of an asset can be supported by the net present value of future cash flows from the assets using estimated cash flow projections; and (3) the cash flow projections are discounted using an appropriate rate.

Income tax

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

As explained in note 22 to the financial statements, withholding tax is levied on dividends to be distributed by subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax is provided, at the applicable withholding tax rate, on the undistributed earnings of the Group's subsidiaries in the PRC that would be distributed to their respective holding companies outside Mainland China in the foreseeable future. Management makes assessment based on the factors which included the dividend policy and level of capital and working capital required for the Group's operation in the foreseeable future.

The Group's investment properties at fair value in Mainland China are all held to earn rental income and/or for capital appreciation and they are considered to be held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on the Group's investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of the investment properties though use.

Consolidation of entities in which the Group holds less than a majority of voting rights

The Group acquired 25% equity interest in Zheng Da Real Estate Development Company Limited ("HK Zheng Da") and its wholly-owned subsidiary, namely 廣州市正大房地產開發有限公司(Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da") (collectively the "Zheng Da Group") in December 2007, and pursuant to an acquisition agreement pertaining to the Zheng Da Group and related supplemental agreements executed thereafter (the latest of which was executed in June 2018), the Group had the currently exercisable right to acquire the remaining 75% equity interest in the Zheng Da Group anytime on or before 30 June 2019. In addition, the private company which holds the remaining 75% equity interest in the Zheng Da Group, which is controlled by a director and certain substantial shareholders of the Company, has given an undertaking to the Company that its board will abide to all voting instructions proposed by the Group for all resolutions and decisions initiated and made at meetings of both shareholders and board of directors of HK Zheng Da. Accordingly, the Group considers that it controls Zheng Da Group even though it owns less than 50% of voting rights because the Group has (i) power over HK Zheng Da; (ii) exposure or rights to variable returns from its involvement with HK Zheng Da; and (iii) the ability to use its power over HK Zheng Da to affect the amount of its returns. On that basis, the directors of the Company considered it is appropriate to account for both HK Zheng Da and GZ Zheng Da as subsidiaries of the Group with effect from 17 December 2007, the date of completion of acquisition of 25% equity interest in the Zheng Da Group. Further details are given in note 33(c) to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 15 to the financial statements.

Fair value estimation of investment properties

In the absence of current prices in an active market for comparable properties, the management considers information from a variety of sources, including:

(a) by reference to independent valuations;

(b) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences; and

(c) recent prices of comparable properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices.

Further details, including the key assumptions used for fair value measurement and sensitivity analysis, are given in note 13 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Provision for legal disputes

At 31 December 2018, the Group was subject to several legal claims in relation to disputes in respect of (i) an investment in a subsidiary; (ii) a property demolition; and (iii) certain contract disputes which, in the opinion of the directors of the Company, arose during the normal course of business. In determining whether provision for these legal claims in dispute is necessary requires an estimation of probability that an outflow of resources embodying economic benefits to be required for settling the obligation and an estimation of the amount of the obligation which can be measured reliably at the end of the reporting period. Based on the advices from the independent legal advisors, certain outstanding legal claims that are still in the preliminary stage and the final outcome is unable to be determined at this stage. In the opinion of the directors of the Company, the Group has possible obligations in relation to certain legal disputes. Except for those accounted for in the financial statements, no other provision was considered necessary in the consolidated financial statements at the end of the reporting period. Disclosure of the litigations has been made in notes 33 and 34 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

(a) the property investment segment, which invests in properties located in Mainland China for generating potential income from letting; and

(b) the corporate and others segment, which provides management services to group companies.

The management of the Group monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from operations. The adjusted profit/(loss) before tax from operations is measured consistently with the Group's profit before tax from operations except that other income and gains and finance costs are excluded from such measurement. Segment assets exclude cash and bank balances as it is managed on a group basis. Segment liabilities exclude tax payable, deferred tax liabilities, interest-bearing bank borrowings and a loan from a director as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

	Property investment		Corporate and others		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Segment revenue *(note 5)*						
Sales to external customers	**51,300**	39,330	**–**	–	**51,300**	39,330
Segment results	**90,760**	154,999	**(15,261)**	(14,813)	**75,499**	140,186
Other income and gains					**564**	670
Finance costs					**(6,701)**	(6,890)
Profit before tax					**69,362**	133,966
Income tax expense					**(19,093)**	(37,158)
Profit for the year					**50,269**	96,808
Segment assets	**4,403,132**	4,532,609	**618**	558	**4,403,750**	4,533,167
Unallocated assets					**91,511**	82,084
Total assets					**4,495,261**	4,615,251
Segment liabilities	**314,191**	309,801	**50,870**	54,782	**365,061**	364,583
Unallocated liabilities					**1,072,906**	1,108,852
Total liabilities					**1,437,967**	1,473,435
Other segment information						
Capital expenditure	**–**	399	**–**	–	**–**	399
Depreciation	**270**	270	**–**	–	**270**	270
Changes in fair value of investment properties	**53,520**	127,088	**–**	–	**53,520**	127,088
Interest on a loan from a director					**6,005**	5,754

Geographical information

Revenues are attributed to the segments based on the locations of the customers, and assets are attributed to the segments based on the locations of the assets. No geographical information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Information about major customers

Revenues from four (2017: four) customers, each of which accounted for revenue exceeding 10% of the Group's total revenues, amounted to approximately HK$51,300,000 (2017: HK$39,330,000).

5. REVENUE

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from other sources		
Income from letting of investment properties	**51,300**	39,330

6. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on:		
Bank loans	**696**	1,136
Loan from a director	**6,005**	5,754
	6,701	6,890

7. PROFIT BEFORE TAX

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

	2018 HK$'000	2017 HK$'000
Depreciation	**270**	270
Minimum lease payments under operating leases on land and buildings	**2,206**	2,023
Employee benefit expense (including directors' and chief executive's remuneration – *note 8*):		
Wages and salaries	**8,008**	6,546
Pension scheme contributions#	**424**	327
	8,432	6,873
Auditor's remuneration	**2,228**	2,188
Foreign exchange differences, net	**–**	(274)
Bank interest income	**(303)**	(168)
Changes in fair value of investment properties	**(53,520)**	(127,088)

At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

2018

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Executive Director				
Ho Kam Hung*	**2,400**	**–**	**36**	**2,436**
Non-executive Director				
Young Kwok Sui	**282**	**–**	**–**	**282**
Independent Non-executive Directors				
Tam Kong, Lawrence	**166**	**14**	**–**	**180**
Wong Miu Ting, Ivy	**166**	**14**	**–**	**180**
Wong Kui Fai	**166**	**14**	**–**	**180**
	498	**42**	**–**	**540**
	3,180	**42**	**36**	**3,258**

2017

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Executive Director				
Ho Kam Hung*	2,400	–	36	2,436
Non-executive Director				
Young Kwok Sui	282	–	–	282
Independent Non-executive Directors				
Tam Kong, Lawrence	166	–	–	166
Wong Miu Ting, Ivy	166	–	–	166
Wong Kui Fai	166	–	–	166
	498	–	–	498
	3,180	–	36	3,216

* Ho Kam Hung is the Managing Director of the Company, which has a similar capacity as a chief executive officer of the Company.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

The Executive Director of the Company is the key management personnel of the Group.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2017: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive of the Company for the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**1,833**	1,426
Pension scheme contributions	**54**	48
	1,887	1,474

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

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**3**	3

During the year, no emoluments were paid by the Group to the non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

10. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current – elsewhere		
Charge for the year	**6,023**	5,386
Deferred *(note 22)*	**13,070**	31,772
Total tax charge for the year	**19,093**	37,158

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the regions in which the Group operates. The subsidiaries established in Mainland China are subject to income taxes at a tax rate of 25% (2017: 25%).

10. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the regions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

2018

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	**(14,800)**	**84,162**	**69,362**
Tax at the statutory tax rate	**(2,442)**	**21,041**	**18,599**
Expenses not deductible for tax	**2,442**	**52**	**2,494**
Others	**–**	**(2,000)**	**(2,000)**
Tax charge at the Group's effective rate	**–**	**19,093**	**19,093**

2017

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	(14,617)	148,583	133,966
Tax at the statutory tax rate	(2,412)	37,146	34,734
Expenses not deductible for tax	2,412	12	2,424
Tax charge at the Group's effective rate	–	37,158	37,158

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$11,989,000 (2017: HK$18,609,000), and the number of ordinary shares of 605,616,520 (2017: 605,616,520) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

12. PROPERTY, PLANT AND EQUIPMENT

2018	Land and buildings HK$'000	Leasehold improvements HK$'000	Equipment HK$'000	Computer and office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:						
At 1 January 2018	9,735	571	491	395	4,472	15,664
Exchange realignment	(405)	(9)	(13)	(9)	(20)	(456)
At 31 December 2018	9,330	562	478	386	4,452	15,208
Accumulated depreciation:						
At 1 January 2018	4,707	571	491	395	4,472	10,636
Provided during the year	270	–	–	–	–	270
Exchange realignment	(206)	(9)	(13)	(9)	(20)	(257)
At 31 December 2018	4,771	562	478	386	4,452	10,649
Net book value:						
At 31 December 2018	4,559	–	–	–	–	4,559

2017						
At cost:						
At 1 January 2017	9,005	554	474	388	4,435	14,856
Exchange realignment	730	17	17	7	37	808
At 31 December 2017	9,735	571	491	395	4,472	15,664
Accumulated depreciation:						
At 1 January 2017	4,104	554	468	388	4,430	9,944
Provided during the year	259	–	6	–	5	270
Exchange realignment	344	17	17	7	37	422
At 31 December 2017	4,707	571	491	395	4,472	10,636
Net book value:						
At 31 December 2017	5,028	–	–	–	–	5,028

13. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**4,476,000**	4,017,248
Additions	**–**	399
Changes in fair value recognised in the income statement *(note 7)*	**53,520**	127,088
Exchange realignment	**(188,730)**	331,265
Carrying amount at 31 December	**4,340,790**	4,476,000

The Group's investment properties comprise commercial properties in Chongqing and properties under development in Guangzhou, the PRC. With reference to the nature, characteristics and risk of these properties, management determined that these commercial properties and properties under development should be classified as investment properties.

The Group's investment properties located in Chongqing and Guangzhou, the PRC, were revalued on 31 December 2018 with reference to the valuations performed by Savills Valuation and Professional Services Limited and Vigers Appraisal and Consulting Limited, both independent qualified valuers, at RMB354,600,000, equivalent to HK$407,790,000 (2017: RMB350,000,000, equivalent to HK$420,000,000), and RMB3,420,000,000, equivalent to HK$3,933,000,000 (2017: RMB3,380,000,000, equivalent to HK$4,056,000,000), respectively.

Management commissions qualified valuers to appraise the fair value of the Group's investment properties on an annual basis. Selection criteria for external valuers includes market knowledge, reputation, independence and professional standards. Management also discusses with the valuers on the valuation assumptions and methodologies. In estimating the fair value of the properties, the valuers assume the current use is the highest and best use of these properties.

Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 28(i) to the financial statements.

Certain investment properties of the Group amounted to HK$407,790,000 (2017: HK$420,000,000) were pledged to secure banking facilities granted to (i) the Group as set out in note 20 to the financial statements and (ii) an independent third party, as set out below. In addition, as at 31 December 2017, certain units of these investment properties of the Group were subject to a charge order imposed by the People's Court (人民法院) for restricted transfer of property title unless and upon repayment of RMB3,743,000 (note 34(c)) to a claimant is made. Such charge order was withdrawn in January 2018.

A principal subsidiary of the Group ("Subsidiary") provided a corporate guarantee and pledged certain of its investment properties and rental receivables to a bank for banking facilities ("Banking Facilities") granted to a local leasing operator (the "Operator") of the sole tenant ("Sole Tenant") of the underlying investment properties. In return, the Operator was responsible to carry out the renovation of the underlying investment properties which was financed by the Banking Facilities. Contemporaneously, both the Operator and the Sole Tenant provided corporate guarantees to the Subsidiary in the event of default in the repayment of the Banking Facilities by the Operator ("Repayment"). In addition, the Sole Tenant undertook to assign its rental receivables of the underlying investment properties to the Subsidiary in the event of default in the Repayment. As at 31 December 2018, the Banking Facilities utilised by the Operator amounted to HK$18,496,000 (2017: HK$28,396,000).

13. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy

The fair values of the Group's investment properties as at 31 December 2018 and 2017 are estimated by using significant unobservable inputs and the fair value measurements are categorised under Level 3.

	Chongqing, the PRC HK$'000	Guangzhou, the PRC HK$'000
Carrying amount at 1 January 2018	**420,000**	**4,056,000**
Changes in fair value recognised in the income statement	**5,520**	**48,000**
Exchange realignment	**(17,730)**	**(171,000)**
Carrying amount at 31 December 2018	**407,790**	**3,933,000**
Carrying amount at 1 January 2017	387,548	3,629,700
Additions	399	–
Changes in fair value recognised in the income statement	588	126,500
Exchange realignment	31,465	299,800
Carrying amount at 31 December 2017	420,000	4,056,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Class of property	Valuation techniques	Significant unobservable inputs	Weighted average of unobservable inputs 2018	2017
Chongqing, the PRC – Commercial properties, completed – Level 3	Income capitalisation approach	Capitalisation rate per annum *(note 1)*	**8%**	8%
Guangzhou, the PRC – Commercial properties, under development – Level 3	Residual approach	Market prices per square metre *(note 2)*	**HK$41,072**	HK$41,677
		Developer's profit per square metre *(note 3)*	**HK$6,872**	HK$6,973
		Estimated cost to complete per square metre *(note 4)*	**HK$10,947**	HK$11,092

13. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (continued)

Notes:

1. The higher the capitalisation rate per annum, the lower the fair value.
2. The higher the market prices per square metre, the higher the fair value.
3. The higher the developer's profit per square metre, the lower the fair value.
4. The higher the estimated cost to complete per square metre, the lower the fair value.

Under the income capitalisation approach, fair value is estimated on the basis of capitalisation of estimated market rentals for the unexpired land use term. The estimated market rentals of the investment properties are assessed and capitalised at a market yield expected by investors for this type of property. The market rentals are assessed by reference to the rentals achieved in the lettings of similar properties in the neighborhood. The market yield, which is the capitalisation rate adopted, is made by reference to the yields derived from analysing the sales transactions of similar properties and adjusted to take account of the valuers' knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties.

Under the residual approach, fair value is estimated on the basis of the gross development value of the investment properties by reference to their development potential deducting various costs, such as construction cost, contingency cost, finance cost, marketing cost and professional fees that will be expended to complete the development as well as the developer's profit to reflect the risks associated with the development of the investment property and the quality of the completed development. The gross development value is arrived at by making reference to the sales transactions or asking price evidences of comparable properties as available in the market with adjustments made to account for any differences and where appropriate.

14. INVESTMENTS IN JOINT VENTURES

	2018 **HK$'000**	2017 HK$'000
Share of net assets	**–**	–

14. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Particulars of the Group's joint ventures are as follows:

Name	Business structure	Place of incorporation and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
I-Mall Investments Limited	Corporate	British Virgin Islands	68.6	33.3	68.6	Dormant
B2B Market Investments Limited	Corporate	British Virgin Islands	35.0	33.3	35.0	Dormant

All of the above investments in joint ventures are directly held by I-Action Agents Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

The Group has discontinued the recognition of its share of losses of I-Mall Investments Limited and B2B Market Investments Limited because the share of losses of these joint ventures exceeded the Group's interests in the joint ventures and the Group has no obligation to take up further losses. At 31 December 2018, the amount of the Group's unrecognised share of losses of these joint ventures was cumulatively HK$8,614,000 (2017: HK$8,614,000).

15. TRADE RECEIVABLES

An ageing analysis of the trade receivables at the end of the reporting period is as follows:

	2018		2017	
	HK$'000	Percentage	HK$'000	Percentage
Within 6 months	**9,433**	**100**	1,187	100

The Group generally grants a credit term of 3 months to 12 months to its customers.

The ageing of the Group's trade receivables is based on the date of recognition of revenue. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

At 31 December 2018, the Group had high concentrations of credit risk that may arise from the exposure to four customers (2017: one) and the largest customer which accounted for 100% (2017: 100%) and 63% (2017: 100%) of the Group's total trade receivables, respectively.

As at 31 December 2018, trade receivables of the Group amounted to HK$5,983,000 (2017: HK$1,187,000) were pledged to secure banking facilities granted to an independent third party of the Group as set out in note 13 to the financial statements.

15. TRADE RECEIVABLES (CONTINUED)

Impairment under HKFRS 9 for the year ended 31 December 2018

The Group has applied the simplified approach to provide impairment of ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the ECLs, trade receivables has been grouped based on shared credit risk characteristics and the days past due. The Group considers the historical loss rate and adjusts for forward-looking information in calculating the expected credit loss rate. As at 31 December 2018, the Group estimated the expected loss rate of trade receivables is minimal and no ECL allowance in respect of these balances is made.

Impairment under HKAS 39 for the year ended 31 December 2017

The ageing analysis of the trade receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	1,187

Receivables that were neither past due nor impaired related to a customer for whom there was no recent history of default.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Prepayments	**346**	199
Deposits and other receivables	**12,863**	13,439
	13,209	13,638

None of the above deposits and other receivables was either past due or impaired at 31 December 2018 and 2017. The financial assets included in the above balances relate to deposits and other receivables for which there was no recent history of default. On 26 February 2019, Ho Kam Hung, a director of the Company, has indemnified the Company from any losses arising from an other receivable of RMB9,706,000 (equivalent to HK$11,162,000) ("Other Receivable"). The indemnity covers the period from 1 January 2019 to 31 December 2019.

Deposits and other receivables mainly represent rental deposits and Other Receivable. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2018, the Group estimate the loss rate of these balances is minimal and no impairment in respect of these balances is made.

17. CASH AND BANK BALANCES

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**89,169**	79,684
Time deposits	**2,342**	2,400
	91,511	82,084

At the end of the reporting period, total cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$84,799,000 (2017: HK$79,701,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made varying periods of one day and one year depending on the immediate cash requirements of the Group, and earn 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.

18. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period is as follows:

	2018		2017	
	HK$'000	Percentage	HK$'000	Percentage
More than 1 year	**2,008**	**100**	2,129	100

The ageing of the Group's trade payables is based on the dates of the goods received or services rendered. The trade payables are non-interest-bearing.

19. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Other payables	**131,629**	135,666
Accrued deferred interest on the Remaining Tranches in relation to the Acquisition *(note 33(c))*	**25,837**	25,837
Other accruals	**22,205**	17,111
	179,671	178,614
Less: current portion	**(46,026)**	(40,992)
Non-current portion	**133,645**	137,622

The balances of other payables and accruals are non-interest-bearing and have no fixed terms of repayment, except for an amount of HK$133,645,000 (2017: HK$137,622,000) which is not repayable before 31 March 2020.

20. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	2018 HK$'000	Effective interest rate (%)	Maturity	2017 HK$'000
Current						
Bank loans – secured	5.88	2019	7,137	5.88	2018	6,874
Non-current						
Bank loans – secured			–	5.88	2019	7,409
			7,137			14,283

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	7,137	6,874
In the second year	–	7,409
	7,137	14,283

At 31 December 2018, the secured bank loans of HK$7,137,000 (2017: HK$14,283,000) of the Group bore interest at floating interest rates. The secured bank loans of HK$7,137,000 (2017: HK$14,283,000) are denominated in RMB.

At 31 December 2018 and 2017, bank loans are secured by certain of the Group's investment properties, a corporate guarantee executed by the Company and a personal guarantee executed by one of the Company's substantial shareholders, Ho Pak Hung.

21. BALANCES WITH A DIRECTOR

The loan from a director (the "Loan"), which is unsecured and bears interest at 7.821% (2017: 7.821%) per annum, is due to Ho Kam Hung, a director of the Company. The balance due to a director (the "Balance"), which is unsecured and interest-free, is due to Ho Kam Hung, a director of the Company. Ho Kam Hung has undertaken to the Company not to demand repayment of the Loan and the Balance until the Group is able to generate sufficient cash inflows to meet its daily working capital requirement but in any event such repayment request will not be made on or before 31 March 2020 and, accordingly, the Loan and the Balance are included under non-current liabilities.

22. DEFERRED TAX

The movements in deferred tax liabilities/(assets) during the year were as follows:

Deferred tax liabilities

	Fair value adjustments on investment properties		Others		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**967,620**	864,381	**–**	–	**967,620**	864,381
Deferred tax charged to the income statement during the year (note 10)	**13,380**	31,772	**1,690**	–	**15,070**	31,772
Exchange realignment	**(40,875)**	71,467	**(71)**	–	**(40,946)**	71,467
Gross deferred tax liabilities at 31 December	**940,125**	967,620	**1,619**	–	**941,744**	967,620

Deferred tax assets

	Temporary differences of accruals	
	2018	2017
	HK$'000	HK$'000
At 1 January	**–**	–
Deferred tax credited to the income statement during the year (note 10)	**(2,000)**	–
Gross deferred tax assets at 31 December	**(2,000)**	–

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018	2017
	HK$'000	HK$'000
Net deferred tax liabilities recognised in the consolidated statement of financial position	**939,744**	967,620

22. DEFERRED TAX (CONTINUED)

The Group has tax losses arising in Hong Kong of HK$156,000 (2017: HK$156,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in group companies that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. At 31 December 2018, the aggregate amount of temporary differences associated with these subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$958,913,000 (2017: HK$893,634,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

23. SHARE CAPITAL

Shares

	2018 HK$'000	2017 HK$'000
Authorised:		
4,000,000,000 (2017: 4,000,000,000) ordinary shares of HK$0.025 (2017: HK$0.025) each	**100,000**	100,000
Issued and fully paid:		
605,616,520 (2017: 605,616,520) ordinary shares of HK$0.025 (2017: HK$0.025) each	**15,140**	15,140

There were no movements in the Company's issued ordinary share capital and share premium during the years ended 31 December 2018 and 2017.

24. SHARE OPTION SCHEME

The Company's share option scheme was adopted on 19 December 2012 (the "Scheme").

The purposes of the Scheme are to: (a) provide a way of recognition of the contributions or services or expected contributions or services of employees, executive and non-executive directors and others; (b) strengthen the relationships between the Group and its employees and directors and others; (c) attract and retain high quality employees and executives and providers of goods and services; and (d) motivate eligible participants to assist in the development and expansion of the Group.

The eligible participants are any executives or non-executive directors or employees (full-time or part-time) of any member of the Group and any other persons whether or not employees (full-time or part-time) or directors of any member of the Group who, in the sole discretion of the board of directors (the "Board"), have contributed or are likely to contribute to the Group. The Scheme became effective on 19 December 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board and may commence and end on any dates as determined by the Board but shall in any event end not later than 10 years from the date upon which the share option is granted.

The exercise price of the share options is determinable by the Board, but must be at least the highest of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (2) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (3) the par value of the Company's shares.

There were no share options in issue under the Scheme during the year. At the end of the reporting period and the date of approval of these financial statements, the Company had no share options outstanding under the Scheme.

25. RESERVES

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

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor.

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions:

(i) During the year ended 31 December 2018, interest on a loan from a director, Ho Kam Hung, of HK$6,005,000 (2017: HK$5,754,000) was settled through the balance due to a director.

(ii) During the year ended 31 December 2018, director fee of HK$2,400,000 (2017: HK$2,400,000) included in accruals were settled through the balance due to a director.

(iii) Changes in liabilities from financing activities

	Interest-bearing bank borrowings HK$'000	**Loan from a director HK$'000**	**Due to a director HK$'000**	**Long term other payables HK$'000**
At 1 January 2018	**14,283**	**76,776**	**183,840**	**137,622**
Changes in financing cash flows	**(6,836)**	**–**	**(1,754)**	**652**
Foreign exchange movement	**(310)**	**(3,199)**	**(7,109)**	**(4,629)**
Interest expenses	**–**	**–**	**6,005**	**–**
Accruals *(note ii)*	**–**	**–**	**2,400**	**–**
At 31 December 2018	**7,137**	**73,577**	**183,382**	**133,645**

	Interest-bearing bank borrowings HK$'000	Loan from a director HK$'000	Due to a director HK$'000	Long term other payables HK$'000
At 1 January 2017	21,773	71,018	160,160	128,351
Changes in financing cash flows	(8,870)	–	1,925	1,024
Foreign exchange movement	1,380	5,758	13,601	8,247
Interest expenses	–	–	5,754	–
Accruals *(note ii)*	–	–	2,400	–
At 31 December 2017	14,283	76,776	183,840	137,622

27. CONTINGENT LIABILITIES

Save as disclosed elsewhere in the financial statements, at the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2018 HK$'000	2017 HK$'000
Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties	**139**	139

28. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases certain of its investment properties under operating lease arrangements with leases negotiated for a term of one year (2017: one year).

At the end of the reporting period, the Group had no future minimum lease receivables under non-cancellable operating leases with its tenants.

(ii) As lessee

The Group leases its office properties in Hong Kong and the PRC under operating lease arrangements with leases negotiated for terms ranging from one to two years (2017: one to two years).

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	2,299	913
In the second to fifth years, inclusive	1,288	–
	3,587	913

29. COMMITMENTS

At the end of the reporting period, the Group had contracted, but not provided for, commitments in respect of construction works and design costs relating to investment properties amounting to approximately HK$1,504,000 (2017: HK$1,570,000) in total.

30. 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:

Financial assets

	Financial assets at amortised cost under HKFRS 9 2018 HK$'000	Loan and receivables under HKAS 39 2017 HK$'000
Trade receivables	9,433	1,187
Financial assets included in prepayments, deposits and other receivables	12,863	13,439
Cash and bank balances	91,511	82,084
	113,807	96,710

30. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	Financial liabilities at amortised cost under HKFRS 9	Financial liabilities at amortised cost under HKAS 39
	2018	2017
	HK$'000	HK$'000
Trade payables	**2,008**	2,129
Financial liabilities included in other payables and accruals	**26,854**	27,034
Loan from a director	**73,577**	76,776
Due to a director	**183,382**	183,840
Long term other payables	**133,645**	137,622
Interest-bearing bank borrowings	**7,137**	14,283
	426,603	441,684

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise interest-bearing bank borrowings and cash and bank balances. The Group has various other financial assets and liabilities such as trade and other receivables, trade payables, other payables and accruals and balances with a director, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The interest rates of the interest-bearing bank borrowings of the Group are disclosed in note 20 to the financial statements. The Group believes its exposure to interest rate risk is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax HK$'000**
2018		
Hong Kong dollar	**50**	**(36)**
Hong Kong dollar	**(50)**	**36**
2017		
Hong Kong dollar	50	(71)
Hong Kong dollar	(50)	71

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables*	–	–	–	9,433	9,433
Financial assets included in prepayments, deposits and other receivables					
– Normal**	12,863	–	–	–	12,863
– Doubtful**	–	–	–	–	–
Cash and bank balances					
– Not yet past due	91,511	–	–	–	91,511
	104,374	–	–	9,433	113,807

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 15 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 December 2017

The credit risk of the Group's financial assets, which comprise trade receivables, other receivables and cash and bank balances, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The directors of the Company have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

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

	2018		
	On demand or within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	**2,008**	**–**	**2,008**
Financial liabilities included in other payables and accruals	**26,854**	**–**	**26,854**
Loan from a director	**–**	**79,582**	**79,582**
Due to a director	**–**	**183,382**	**183,382**
Long term other payables	**–**	**133,645**	**133,645**
Interest-bearing bank borrowings	**7,368**	**–**	**7,368**
	36,230	**396,609**	**432,839**

	2017		
	On demand or within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	2,129	–	2,129
Financial liabilities included in other payables and accruals	27,034	–	27,034
Loan from a director	–	82,781	82,781
Due to a director	–	183,840	183,840
Long term other payables	–	137,622	137,622
Interest-bearing bank borrowings	7,418	7,604	15,022
	36,581	411,847	448,428

The Group is also exposed to liquidity risk through the granting of financial guarantees, further details of which are disclosed in notes 13 and 27 to the financial statements.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and bank balances and equity attributable to equity holders of the Company, which comprises share capital and reserves as detailed in the consolidated statement of changes in equity.

The Group monitors capital using a gearing ratio, which is interest-bearing borrowings divided by total assets. Interest-bearing borrowings included interest-bearing bank borrowings and a loan from a director. The gearing ratios as at the end of the reporting periods were as follows:

	2018 **HK$'000**	2017 HK$'000
Interest-bearing bank borrowings	**7,137**	14,283
Loan from a director	**73,577**	76,776
Total interest-bearing borrowings	**80,714**	91,059
Total non-current assets	**4,345,349**	4,481,028
Total current assets	**149,912**	134,223
Total assets	**4,495,261**	4,615,251
Gearing ratio	**0.02**	0.02

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**290,218**	290,218
Due from subsidiaries	**197,357**	209,485
Total non-current assets	**487,575**	499,703
CURRENT ASSETS		
Deposits and other receivables	**617**	556
Cash and bank balances	**47**	84
Total current assets	**664**	640
CURRENT LIABILITIES		
Other payables and accruals	**(5,416)**	(5,284)
Tax payable	**(1,148)**	(1,148)
Total current liabilities	**(6,564)**	(6,432)
NET CURRENT LIABILITIES	**(5,900)**	(5,792)
TOTAL ASSETS LESS CURRENT LIABILITIES	**481,675**	493,911
NON-CURRENT LIABILITIES		
Long term other payables	**(27,181)**	(27,181)
Due to a director	**(10,300)**	(7,900)
Total non-current liabilities	**(37,481)**	(35,081)
Net assets	**444,194**	458,830
EQUITY		
Share capital	**15,140**	15,140
Reserves *(note)*	**429,054**	443,690
Total equity	**444,194**	458,830

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	**398,726**	**547,326**	**(502,362)**	**443,690**
Loss for the year	**–**	**–**	**(14,636)**	**(14,636)**
At 31 December 2018	**398,726**	**547,326**	**(516,998)**	**429,054**
At 1 January 2017	398,726	547,326	(487,900)	458,152
Loss for the year	–	–	(14,462)	(14,462)
At 31 December 2017	398,726	547,326	(502,362)	443,690

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued and fully paid share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2018	2017	
Directly held					
China Land Realty Investment (BVI) Limited	British Virgin Islands/Hong Kong	US$11,204 Ordinary	100	100	Investment holding
Indirectly held					
Chongqing Smart Hero Real Estate Development Company Limited ("CQ Smart Hero")	PRC/ Mainland China	US$2,000,000 Registered capital *(Note a)*	100	100	Property development, investment and management
Smart Hero (Holdings) Limited	Hong Kong	HK$2 Ordinary, HK$300 Non-voting deferred *(Note b)*	100	100	Investment holding
Proland International Technology Limited	Hong Kong	HK$2 Ordinary	100	100	Investment holding
廣州遠朋天成電子科技有限公司	PRC/ Mainland China	HK$1,500,000 Registered capital *(Note a)*	100	100	Inactive
HK Zheng Da	Hong Kong	HK$4 Ordinary *(Note c)*	25	25	Investment holding
GZ Zheng Da	PRC/ Mainland China	RMB150,000,000 Registered capital *(Notes a, c, d and e)*	25	25	Property development, investment and management

The above table lists the subsidiaries of the Company at 31 December 2018 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

a. CQ Smart Hero, 廣州遠朋天成電子科技有限公司 and GZ Zheng Da are wholly-foreign-owned enterprises established in the PRC.

b. The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company, or to participate in any distribution on winding-up.

c. The Group entered into a conditional sale and purchase agreement on 9 October 2007 (as amended on 26 October 2007) (the "Acquisition Agreement") with two private companies to acquire the entire equity interest in the Zheng Da Group (the "Acquisition"). The acquisition of the entire equity interest in the Zheng Da Group was to be completed in four tranches. The first tranche was completed on 17 December 2007 and, as a result, the Group acquired a 25% equity interest in HK Zheng Da. According to the Acquisition Agreement and related supplementary agreements executed thereafter (the latest of which was executed in June 2018), the Group had the currently exercisable right to acquire the remaining 75% equity interest in HK Zheng Da anytime on or before 30 June 2019 as further discussed below. In addition, the private company which holds the remaining 75% equity interest in the Zheng Da Group, which is controlled by a director and certain substantial shareholders of the Company, has given an undertaking to the Company that its board will abide to all voting instructions proposed by the Group for all resolutions and decisions initiated and made at meetings of both shareholders and board of directors of HK Zheng Da. Accordingly, the Group has (i) power over HK Zheng Da; (ii) exposure or rights to variable returns from its involvement with HK Zheng Da; and (iii) ability to use its power over HK Zheng Da to affect the amount of its returns. On this basis, the directors of the Company considered it is appropriate to account for both HK Zheng Da and GZ Zheng Da as subsidiaries of the Group with effect from 17 December 2007, the date of completion of acquisition of 25% equity interest in the Zheng Da Group.

   In accordance with the Acquisition Agreement, the second, third and fourth tranches (the "Remaining Tranches") had to be completed on or before 31 May 2008, 31 October 2008 and 31 March 2009, respectively. Should the Remaining Tranches not be completed according to the dates specified above, a deferred interest would be incurred which was calculated based on a rate of 4% per annum on the relevant consideration based on the period from the relevant completion date of each tranche as mentioned above and ending on and excluding the day when the relevant consideration was settled by the Company or 31 March 2009, whichever the earlier. At the end of the reporting period and up to the date of this report, the completion of the Remaining Tranches remained outstanding and the accrued aggregated deferred interest in aggregate of HK$25,837,000 (note 19) remained unsettled.

   During the current reporting period, the Company entered into an extension agreement on 27 June 2018 to extend the completion of the Remaining Tranches from 30 June 2018 to 30 June 2019. No deferred interest was required for this period of extension.

d. Subject to the payment of a fixed sum of RMB50,000 per month for 200 months up to 28 February 2011 to the joint venture party, HK Zheng Da was entitled to all of the profits and bears all of the losses of GZ Zheng Da.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da

GZ Zheng Da's corporation information in public database indicates information of alleged "Liquidation Provisional Filed (清算備案)" ("Alleged Liquidation Provisional Filed")

Pursuant to the Provisional Rules of Public Notice of Corporate Information of the People's Republic of China (中華人民共和國企業信息公示暫行條例) newly enacted in October 2014, the Public Database of National Enterprise Credit Information (Guangdong) (全國企業信用信息公示系統（廣東）) on GZ Zheng Da downloaded in March 2015 revealed certain newly appeared information under the Provisional Filing Information Column (備案信息欄目) viz "Liquidation Information (清算信息)", "Liquidation Officer-In-Charge He Wei (清算負責人何偉)" and "Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所)". With effect from August 2016, the Public Database of National Enterprise Credit Information (Guangdong) (全國企業信用信息公示系統（廣東）) was restructured as the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) with a more user friendly reporting format. Since August 2016, the Guangzhou Administration for Industry and Commerce Bureau (廣州市工商行政管理局) (the "AIC Bureau") ceased to provide public search service for Business Record Information (商事登記信息). The report of GZ Zheng Da downloaded from the new National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) in February 2019 contained similar information as disclosed in former reports including "Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所)". In addition, the new report revealed that the registration status (登記狀態) of GZ Zheng Da was "Enterprise in Operation (in Business) (在營（開業）企業)" and the authorised representative (法定代表人) was "Ho Kam Hung".

According to the Corporate Registration Information Memorandum (企業登記資料包) obtained from the AIC Bureau by GZ Zheng Da (being exclusive information to the subject corporation), a third party namely Guangdong Guoding Law Firm (廣東國鼎律師事務所) ("Guoding") filed an Application Form for Notification of Change (Provisional Filing) of Foreign Investment Enterprise (外商投資企業變更（備案）登記申請書) (the "Application Form"), together with a copy of purported order of the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院決定書) (the "Purported Court Order") as supporting document, to the AIC Bureau without the prior acknowledgment nor consent of GZ Zheng Da in September 2011. The Application Form requested for filing of "Provisional Filing of Member of the Liquidation Group (清算組成員備案)" and "Provisional Filing of Liquidation Officer-In-Charge (清算負責人備案)" in the corporate information database of GZ Zheng Da at the AIC Bureau. Copy of the Purported Court Order stated that "the court has appointed Guoding as the liquidation group to proceed with the liquidation of GZ Zheng Da in accordance with the law (已指定國鼎組成清算組，依法對廣州正大進行清算)".

GZ Zheng Da confirmed to the Company that it had never authorised, appointed or instructed Guoding or He Wei to file or handle such application, nor granted consent to such application thereafter. GZ Zheng Da and HK Zheng Da, being the equity holder of GZ Zheng Da holding 100% interest therein, also confirmed to the Company that they had never been served any statements of instigation of proceedings, notice of summons or notice of judgement, orders (including the Purported Court Order or order of a similar nature) or written judgement(s) in relation to liquidation petition or of a similar nature (the "Purported Liquidation Petition Case") from the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court") in accordance with the prevailing PRC laws and regulations and due judicial procedures. Both the Company and GZ Zheng Da further confirmed that they were unable to find any "public official record" about the Purported Liquidation Petition Case (not even the relevant case number) from the official database or public notice board of the Guangzhou Court so far.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da (continued)

Alleged Liquidation Provisional Filed (continued)

According to the Purported Court Order, it appeared that the purported liquidation petition was instituted by 越房私企 (as defined in note 34(a)), a third party neither had any equity or any other interests in GZ Zheng Da nor was a creditor of GZ Zheng Da. Hence, the PRC legal counsel of GZ Zheng Da considered that 越房私企 was unlikely to meet the pre-requisite conditions for filing a liquidation petition against GZ Zheng Da pursuant to the prevailing company laws and regulations of the PRC.

Based on the record and facts known to the Company and GZ Zheng Da and having taken PRC legal advice, both the Company and GZ Zheng Da are of the view that (i) the legal proceedings of the Purported Liquidation Petition Case (if any) do not conform to the legal provisions and judicial procedures in the PRC; (ii) the Purported Court Order (if any) is not effective disposition of the matter to which it purportedly relates and thus is invalid and void; and (iii) the purported authority of the so-called liquidation group of GZ Zheng Da is derived from the Purported Court Order which is invalid and void. Therefore, Guoding does not have the lawful authority to proceed with the liquidation of GZ Zheng Da or file corporate information about GZ Zheng Da with the AIC Bureau (or for any other purposes) for and on behalf of GZ Zheng Da.

According to the relevant provisions of the Rules of Administration of Company Registration of the People's Republic of China (中華人民共和國公司登記管理條例) (the "Company Registration Rules"), the provisional filing of liquidation information with the AIC Bureau requires the consent of the subject company (with company chop shown on the application form) and other requisite legal documents, such as company dissolution documents (公司解散證明文件) and compulsory liquidation order (強制清算決定書), as supporting documents. No such supporting documents nor GZ Zheng Da's company chop were found on the Application Form submitted by Guoding. After taking PRC legal advice, both the Company and GZ Zheng Da consider that the Application Form submitted to the AIC Bureau by Guoding violates the relevant provisions of the Company Registration Rules to a material extent and the provisional filing under concern should be rendered "application declined (申請退回)".

The business of GZ Zheng Da remains as usual and GZ Zheng Da's latest tax return was filed in May 2018. Mr. Ho Kam Hung, an executive director of the Company, has been the legal representative of GZ Zheng Da since 1993. According to the categorisation made by the AIC Bureau, the status of GZ Zheng Da is regarded as "Enterprise in Operation (in Business) (在營(開業)企業)".

Shareholders of the Company are urged to read the Company's announcement dated 25 March 2013 about the lawful authority of the purported "liquidation group of GZ Zheng Da" in question.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da (continued)

The Second and Unqualified Person appearing on the Demolition Permit and the Demolition Extension Notice

Since 2003, GZ Zheng Da had been granted the Qualified Person for Demolition and Relocation (拆遷人) (the "Qualified Person") (which was required to demonstrate substantial capital resources, property development plan on hand, concrete property demolition and relocation plan pursuant to the provisions of Rules of Management of Urban Property Demolition and Relocation of Guangzhou Municipality (廣州市城市房屋拆遷管理條例) (the "Demolition Management Rules")) and the Qualified Contractor for Demolition and Relocation (拆遷實施單位) (the "Qualified Contractor") (which was required to demonstrate substantial hands-on experience in property demolition and relocation projects and hiring extensive construction and engineering professionals pursuant to the provisions of the Demolition Management Rules) by the Guangzhou Municipal Administration of National Resources and Property Bureau (廣州市國土資源和房屋管理局) ("Property Administration Bureau") to the effect that GZ Zheng Da was empowered to demolish a property located in Yuexiu District, Guangzhou within about one year under the licence of a property demolition and relocation permit (房屋拆遷許可證) (the "Demolition Permit"). Since then, GZ Zheng Da applied for the extension of the Demolition Permit once every year and the Property Administration Bureau customarily renewed the Demolition Permit and the notice of extension of property demolition and relocation (房屋拆遷延期公告) (the "Demolition Extension Notice") every subsequent year.

The Demolition Extension Notices issued since 2014 contained new clauses which included, inter alia, an entity named "the liquidation group of GZ Zheng Da (廣州正大清算組)" (the so-called "Liquidator") as the secondary Qualified Person (第二拆遷人) and the secondary Qualified Contractor (第二拆遷實施單位) in addition to GZ Zheng Da which remained as the primary Qualified Person (第一拆遷人) and primary Qualified Contractor (第一拆遷實施單位). The Demolition Extension Notices also put a remark that "pursuant to the Purported Court Order, the Guangzhou Court nominated Guoding as the liquidation group to proceed with the liquidation of GZ Zheng Da in accordance with the laws, and the demolition activities should be executed by the liquidation group" (collectively the "New Clauses").

GZ Zheng Da confirmed to the Company that it had no knowledge of the New Clauses until the renewal of the said extension notices nor concurred with such New Clauses thereafter and hence raised objection to the Property Administration Bureau about the imposition of the New Clauses. No formal reply had been obtained from the Property Administration Bureau so far.

After seeking PRC legal advice, both the Company and GZ Zheng Da consider that (i) both the Demolition Permits and the Demolition Extension Notices granted to GZ Zheng Da are legally valid permit and notice respectively despite their legal defects; (ii) the Guangdong Provincial Guangzhou Municipal Yuexiu District People's Court (廣東省廣州市越秀區人民法院) ("Yuexiu Court"), the Guangzhou Court and the Property Administration Bureau all accept GZ Zheng Da as a separate legal entity; (iii) GZ Zheng Da remains as the Qualified Person and the Qualified Contractor and therefore is eligible to proceed the demolition and relocation activities pursuant to the Demolition Permit; (iv) the purported authority of the so-called Liquidator is derived from the Purported Court Order which is invalid and void (please refer to the section headed "Alleged Liquidation Provisional Filed" above for further details); (v) the capacity of the so-called Liquidator does not exist until and when Guoding removes the legal representative of GZ Zheng Da; (vi) the so-called Liquidator technically cannot co-exist with GZ Zheng Da to engage in the same business activities; (vii) a liquidator is not empowered to engage in the businesses other than those specified under Clause 184 of Companies Law of People's Republic of China (中華人民共和國公司法), which do not include demolition and relocation businesses; (viii) a liquidator does not possess the pre-requisite qualifications (特定資質) and hands-on expertise in engaging in demolition and relocation businesses pursuant to the provisions of the Demolition Management Rules; and (ix) the Purported Court Order, if legally enforceable, fundamentally does not provide that "the demolition activities should be executed by the liquidation group".

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da (continued)

The Second and Unqualified Person appearing on the Demolition Permit and the Demolition Extension Notice (continued)

Since 2014, both the Demolition Permit and the Demolition Extension Notice renewed every subsequent year, including the latest one renewed in November 2018, contained the New Clauses. GZ Zheng Da continued to proceed the demolition and relocation activities as usual.

A Purported Notice issued by the so-called Liquidator

In June 2017, HK Zheng Da and one of its three directors received a notice (告知函) (the "Purported Notice") issued by the so-called Liquidator albeit the operation of GZ Zheng Da remained as usual and normal when the Purported Notice was issued.

The Purported Notice, dated 16 June 2017, was issued by the so-called Liquidator and the addressees are HK Zheng Da and 越房私企 (collectively the "Addressees"). 越房私企 was an independent third party to the Company and its directors and substantial shareholders and their respective associates. HK Zheng Da and one of its three directors received the Purported Notice on or about 21 June 2017.

According to then record downloaded from the official website of the AIC Bureau, the shareholders of GZ Zheng Da are HK Zheng Da and 越秀國企 (as defined in note (34(a)). Pursuant to the terms of relevant joint venture agreement (as revised) executed between HK Zheng Da and 越秀國企, HK Zheng Da held 100% attributable interest in GZ Zheng Da.

To the best knowledge and belief and having made all reasonable enquiries, the Company confirms that 越房私企 (i) is not a registered shareholder of GZ Zheng Da; (ii) does not have any attributable interest in GZ Zheng Da; and (iii) is not a creditor of GZ Zheng Da. 越房私企 is not 越秀國企.

The Purported Notice sought to convey, inter alia, the following messages (without prejudice on its validity) to the Addressees: (i) the so-called Liquidator was constituted under a mandate granted by the Guangzhou Court pertaining to a members' compulsory liquidation petition (apparently lodged by 越房私企) (the "Purported Petition"); (ii) the so-called Liquidator was prepared to make submission to the Guangzhou Court for balloting the appointment of appraisal and auction agents to appraise and tender the assets of GZ Zheng Da for auction which include, inter alia, two parcels of land with an aggregate gross area of about 16,800 square metres and a 2-storey non-permanent commercial podium; and (iii) the Addressees were urged to furnish any related information or proposal to the Liquidator within 15 days from the date of the Purported Notice.

To the best knowledge and belief and having made all reasonable enquiries, the Company confirms that both GZ Zheng Da and HK Zheng Da have never been served the Purported Liquidation Petition Case (please refer to the section headed "Alleged Liquidation Provisional Filed" above for details) in due legal process in accordance with the relevant laws and regulations of the PRC since 21 January 2009, the date of instituting the Purported Petition.

The Company hence infers that the purported "authority" of the so-called Liquidator may have been derived from what is purportedly an undated court notice (the "Purported Court Notice") downloaded from an unofficial legal database website. According to the Purported Court Notice, the Guangzhou Court purportedly directed a third party to constitute an alleged liquidation group for liquidating GZ Zheng Da. However, as at 31 December 2018 and up to the date of this report, both GZ Zheng Da and HK Zheng Da are unable to trace any "public official record" about the Purported Petition or the Purported Court Notice (not even the relevant case number) in the official public domain of the Guangzhou Court, a circumstance which apparently is not in compliance with usual and normal legal practices. Shareholders of the Company are urged to refer to the Company's announcement dated 25 March 2013 for further information about the legality of the Purported Petition and the Purported Court Notice.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes: (continued)

e. Alleged "Liquidation Petition" against GZ Zheng Da (continued)

A Purported Notice issued by the so-called Liquidator (continued)

The Purported Notice was the first notice or letter that HK Zheng Da (being the shareholder holding 100% attributable interest in GZ Zheng Da) so far received from the so-called Liquidator, some six years from its alleged constitution in 2011.

Pursuant to the relevant provisions of the PRC laws and regulations, "the liquidation group shall finalise the liquidation within six months from the date of constitution in the case the liquidation is ordered by the People's Court (人民法院). If the liquidation is not yet finalised within six months under particular circumstances, the liquidation group shall apply for extension of its mandate at the People's Court (人民法院)." Hence, if the liquidation group is unable to finalise the liquidation within six months and the extension of mandate is not being granted by the People's Court, the liquidation group shall be dissolved by law.

The PRC legal counsel of HK Zheng Da noted that the so-called Liquidator was unable to offer any evidence for the renewal of its mandate (without prejudice on its validity) in separate court proceedings at the Guangzhou Court in or about June 2017.

The PRC legal counsel of HK Zheng Da hence advised as follows: (i) the so-called Liquidator does not possess a valid mandate to proceed with the liquidation of GZ Zheng Da nor to issue the Purported Notice (without prejudice on the legality of the Purported Court Notice); (ii) even if there was a renewal of the so-called Liquidator's mandate, the Purported Notice is in itself legally invalid as it does not mention whether the liquidation proposal (清算方案) has been approved by shareholders (including HK Zheng Da), creditors or the People's Court (人民法院); and (iii) prima facie evidence below demonstrates that GZ Zheng Da continues to operate as usual and normal and is a qualified legal litigant (適格訴訟主體) at the People's Court (人民法院), and hence is not under liquidation.

The Company further elaborates as follows: (i) pending the demolition of to-be-vacant properties and re-development of the existing site into a grade A commercial complex, GZ Zheng Da operates a footwear wholesale and distribution outlet at a 2-storey non-permanent commercial podium erected at the development site and its operation remains usual and normal to-date; (ii) the report of GZ Zheng Da downloaded from the Public Database of National Enterprise Credit Information (Guangdong) (全國企業信用信息公示系統(廣東)) in February 2019 reveals that its registration status is "Enterprise in Operation (in Business) (在營(開業)企業)" and its authorised legal person is Ho Kam Hung (being a director of the Company). The public database on GZ Zheng Da also concurrently reveals the following information under the Provisional Filing Information Column (備案信息欄目) viz "Liquidation Information (清算信息)": Member of Liquidation Group Guangdong Guoding Law Firm (清算組成員廣東國鼎律師事務所) (please refer to the section headed "Alleged Liquidation Provisional Filed" above for details); (iii) the annual tax return of GZ Zheng Da for 2018 indicated that the operation of GZ Zheng Da was usual and normal throughout the year ended 31 December 2018; and (iv) the People's Court (人民法院) in Guangdong continues to recognise GZ Zheng Da as the qualified litigant (適格訴訟立體) to-date.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests	75%	75%

	2018 HK$'000	2017 HK$'000
Profit for the year allocated to non-controlling interests	38,280	78,199
Dividends paid to non-controlling interests	–	–
Exchange differences on translation of foreign operation	(94,541)	164,697
Accumulated balances of non-controlling interests at the reporting date	2,174,758	2,231,019

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	2018 HK$'000	2017 HK$'000
Profit for the year	51,040	104,265
Total comprehensive income/(expense) for the year	(75,015)	323,861
Current assets	207,801	187,142
Non-current assets	3,933,024	4,056,025
Current liabilities	(58,995)	(50,850)
Non-current liabilities	(1,182,153)	(1,217,625)
Net cash flows from/(used in) operating activities	5,780	(9,907)
Net cash flows from/(used in) financing activities	(5,969)	10,069
Net increase/(decrease) in cash and cash equivalents	(189)	162

34. LITIGATIONS

(a) Pursuant to the terms of the relevant joint venture agreement, the joint venture period of GZ Zheng Da was from 31 December 1993 to 31 December 2008 and could be further extended at the request of either foreign or sino partner upon maturity. In December 2008, both GZ Zheng Da and its foreign partner, HK Zheng Da, agreed to extend the joint venture period by 15 years with effect from 1 January 2009 in accordance with the provisions of the articles of GZ Zheng Da but 越秀房地產開發經營公司 ("越秀國企"), its sino partner, had become dormant a couple of years ago and therefore its consent could not be obtained. Contemporaneously, it appeared that another enterprise namely 越秀房地產開發經營有限公司 ("越房私企"), a privately owned enterprise which acquired certain assets (but interest in GZ Zheng Da not included) from 越秀國企 some years ago, claimed that it had taken up certain interest in GZ Zheng Da from 越秀國企, but that was not the case. As such, in late December 2008, GZ Zheng Da, an indirect wholly-owned subsidiary of the Company, served a writ against 越房私企 at the Yuexiu Court demanding for the confirmation of disqualification of 越房私企 from the sino partnership (if any) of the subject joint venture. The relevant judgement was granted in July 2009 with rulings endorsing the request made by GZ Zheng Da.

In August 2009, 越房私企 filed an appeal petition (the "Zheng Da Appeal") at the Guangzhou Court. A hearing was made in October 2009 and no further hearing had been made since then. Both GZ Zheng Da and HK Zheng Da had not yet received a valid judgement in writing issued by the Guangzhou Court in accordance with the relevant PRC laws and due judicial procedures. Further details about the developments of, and events incidental to, the Zheng Da Appeal were disclosed in the Company's announcement dated 25 March 2013.

Since then, both GZ Zheng Da and HK Zheng Da had dialogues with the relevant court officials from time to time and are looking forward to receiving a formal and legally valid verdict, notice or directive in relation to the Zheng Da Appeal to be granted by the Guangzhou Court or its higher court in accordance with the relevant PRC laws and due judicial procedures, but no such verdict or directive was received in proper manner, up to the date of this report.

Taking into account the rulings granted by the Yuexiu Court in July 2009, the facts and legal grounds substantiated at the first hearing of the Zheng Da Appeal, and the opinion given by the PRC legal counsel and advisors, the Company remains optimistic in obtaining a favourable judgement in the Zheng Da Appeal.

34. LITIGATIONS (CONTINUED)

(b) In October 2013, the Property Administration Bureau issued two rulings on property demolition (房屋拆遷決定書) (the "Compensation Rulings") to GZ Zheng Da pertaining to two compensation and resettlement cases for property demolition (房屋拆遷補償安置個案). The Compensation Rulings concluded that GZ Zheng Da was liable to pay an one-off cash compensation in an aggregate amount of approximately RMB27,600,000 (equivalent to HK$31,740,000 as at 31 December 2018) (the "Cash Compensation") to a group of claimants (the "Claimants").

In March 2014, the Guangzhou Municipal People's Government (廣州市人民政府) (the "Guangzhou Government") issued two rulings on administrative review (行政覆議決定書) revoking the Compensation Rulings. As a result, GZ Zheng Da's obligation to pay the Cash Compensation was discharged.

In June 2015, the Guangzhou Court issued two rulings on administrative proceedings (行政裁定書) declining the appeal made by the Claimants against the Guangzhou Government's rulings.

In December 2015, the Guangdong Provincial Higher People's Court (廣東省高級人民法院) (the "Guangdong Court") issued two rulings on administrative proceedings (行政裁定書) to the effect that (i) the Guangzhou Court's rulings were withdrawn; and (ii) the Guangzhou Court was ordered to re-hear the Claimants' appeal against the Guangzhou Government's rulings.

In May 2017, the Guangzhou Railway & Transportation Intermediate Court (廣州鐵路運輸中級法院) (the "Railway Court"), under the direction of Guangdong Court, re-heard the case and declined the appeal made by the Claimants against the Guangzhou Government's rulings. The Claimants then filed a further appeal against the Railway Court's rulings. As at the date of this report, the second appeal (the "Second Appeal") was not yet heard.

Taking into account the latest rulings granted by the Guangzhou Government and the Railway Court, the facts and legal grounds substantiated, and the opinion given by the PRC legal counsel and advisors, the Company remains optimistic in obtaining a favourable judgement to be given to the Group after the hearing of the Second Appeal.

(c) In 2011, two plaintiffs, together with CQ Smart Hero, an indirect wholly-owned subsidiary of the Company, in its capacity as the third plaintiff, served a writ of summons against a third party (the "Third Party") at the Yuexiu Court in relation to a contract dispute (合同糾紛). The case was subsequently redirected to the Guangzhou Court for trial for the reason of jurisdiction of court. In September 2013, the Guangzhou Court ruled that CQ Smart Hero was liable to pay an accrued interest in an aggregate amount of approximately RMB10,500,000 to the Third Party. Subsequently, CQ Smart Hero, together with two plaintiffs, filed an appeal against the Guangzhou Court's rulings at the Guangdong Court.

In June 2015, the Guangdong Court upheld the Guangzhou Court's rulings but the claim that was to be borne by CQ Smart Hero was reduced to approximately RMB4,200,000. The Guangdong Court's rulings are final and absolute unless being revoked by judicial review (復審).

34. LITIGATIONS (CONTINUED)

(c) (continued)

The PRC legal counsel of CQ Smart Hero was of the view that judicial errors were made in the Guangdong Court's rulings and therefore were justifiable for pursuing judicial review (復審) with an aim to revoke its rulings. However, CQ Smart Hero, after careful and due considerations, concluded that additional management time and legal costs to be incurred would probably override the economic benefits to be derived from a favourable verdict of judicial review, if any, and resolved not to pursue the case further.

In February 2016, the Guangzhou Court confined the claim amount to approximately RMB3,743,000 (approximately HK$4,417,000), and a provision of the same amount was fully made in the Company's consolidated financial statements for the year ended 31 December 2015.

Since then, CQ Smart Hero and the Third Party could not reach consensus on settlement arrangement and both parties sought directions and orders at the Guangzhou Court for enforcement. The claim remained unsettled as at 31 December 2018.

(d) During the year ended 31 December 2015, the Guangzhou Urban Management Integrated Enforcement Bureau Yuexiu Sub-Bureau (廣州市城市管理綜合執法局越秀分局) (the "Enforcement Bureau") issued a ruling on an administrative disposition of illegal erection (違法建築行政處理決定書) (the "Ruling") to GZ Zheng Da to the effect that a 2-storey non-permanent commercial podium situated in the Yuexiu District was required to be demolished by GZ Zheng Da. In the Ruling, the Enforcement Bureau concluded, inter alia, that the subject property was deemed as an illegal erection as its occupancy permit had expired. The Ruling, however, did not elaborate further why the renewal of the occupancy permit was not granted.

Notwithstanding the subject property is classified as non-permanent erection pending for re-development, it had obtained approvals and permits for town planning, construction, inspection, occupancy and fire safety from all relevant government authorities up-to-date and hence its building standards and fire safety are comparable to those standards for permanent erections. In addition, GZ Zheng Da is of the view that the subject property would not be deemed as illegal erection if the occupancy permit could be reasonably renewed as permitted under the relevant laws and regulations and hence the prosecution in question should be immune.

As such, GZ Zheng Da, together with six co-operative parties, served a writ against the Ruling at the Yuexiu Court in November 2015. The petition was declined by the Yuexiu Court in May 2016.

In June 2016, GZ Zheng Da, together with six co-operative parties, hence filed an appeal against the Yuexiu Court's ruling at the Railway Court. In May 2017, the Railway Court revoked both the Yuexiu Court's ruling and the Ruling. In November 2017, the Enforcement Bureau filed an administration petition (行政申訴) at the Guangdong Court with an attempt to overturn the rulings made by the Railway Court. As at the date of this report, the administration petition was not yet heard. Accordingly, the subject non-permanent commercial podium remained its operation as usual.

35. RELATED PARTY TRANSACTIONS

In addition to the guarantee, related party transactions and balances with related parties as detailed elsewhere in these financial statements, the Group also incurred an interest expense of HK$6,005,000 (2017: HK$5,754,000) in respect of a loan from a director, Ho Kam Hung, during the year. Details of a loan from a director were disclosed in note 21 to the financial statements.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 February 2019.

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

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**51,300**	39,330	35,568	37,392	38,304
Profit before tax	**69,362**	133,966	344,502	186,843	126,751
Income tax expense	**(19,093)**	(37,158)	(89,672)	(46,858)	(34,886)
Profit before non-controlling interests	**50,269**	96,808	254,830	139,985	91,865
Non-controlling interests	**(38,280)**	(78,199)	(196,202)	(111,249)	(75,427)
Profit for the year attributable to ordinary equity holders of the Company	**11,989**	18,609	58,628	28,736	16,438

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**4,495,261**	4,615,251	4,135,706	4,014,674	4,104,062
TOTAL LIABILITIES	**(1,437,967)**	(1,473,435)	(1,324,720)	(1,282,641)	(1,352,634)
NON-CONTROLLING INTERESTS	**(2,174,758)**	(2,231,019)	(1,988,123)	(1,915,698)	(1,915,686)
	882,536	910,797	822,863	816,335	835,742

Particular of the principal properties in Mainland China held by the Group at 31 December 2018 is as follows:

Investment Properties

Description	Use	Lease term	Approximate gross floor area (sq.m.)	Attributable percentage interest
1. The whole of Level 1, Level 2, Level 3, Level 4, Level 8, Level 11, and portion of the Basement Level of Gang Yu Square Chiao Dong Road Chiaotianmen Chongqing The People's Republic of China	Commercial	Medium	24,372	100
2. The Land Parcels located to the east of Jiefang Road South, to the south of Daxin Road; to the north of Yede Road and to the west of Xieen Street, Yuexiu District, Guangzhou Guangdong Province, The People's Republic of China	Commercial	Medium	233,818	25