香港國際建投

HKICIM Group

HONG KONG INTERNATIONAL CONSTRUCTION INVESTMENT MANAGEMENT GROUP CO., LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 687)

Annual Report

2018

5 years+ 商界展關懷 caringcompany

Awarded by The Hong Kong Council of Social Service

香港社會服務聯會頒發

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Chairman's Statement

I am pleased to present the annual report of Hong Kong International Construction Investment Management Group Co., Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2018. During the year under review, the Group achieved a profit attributable to equity holders of the Company of HK$361 million, equivalent to HK$0.106 per share (31 December 2017: HK$6 million, equivalent to HK$0.003 per share) while turnover was HK$2,971 million (31 December 2017: HK$3,290 million).

Acquisition of Controlling Interest and Mandatory Unconditional Cash Offer

The board of directors of the Company (the "Board") notes that, in the joint announcement dated 8 March 2019 (the "Joint Announcement"), Times Holdings II Limited ("Times Holdings II") and the Company jointly announced that HNA Finance I Co., Ltd. ("HNA Finance I") has entered into a sale and purchase agreement with Times Holdings II to acquire approximately 69.54% of the issued shares of the Company ("Times Transaction").

Upon closing of the Times Transaction on 27 March 2019, Times Holdings II has become the controlling shareholder of the Company. Pursuant to Rule 26.1 and Rule 13.5 of the Hong Kong Code on Takeovers and Mergers, following the completion of the Times Transaction, Times Holdings II is required to make a mandatory unconditional general offer in cash for all the issued shares other than those already owned or agreed to be acquired by Times Holdings II and its concert parties and to make comparable offers to the optionholders for all share options (which confer rights on the optionholders to subscribe for new shares of the Company) by way of cancellation of the share options (collectively, the "Offers"). For details, please refer to the Joint Announcement, the announcement dated 27 March 2019 (the "Closing Announcement") and the composite offer document relating to the Offers made by Times Holdings II expected to be despatched in or about April 2019 (the "Composite Document").

Dividend

In view of the change of controlling shareholder and the Offers to be made by Times Holdings II as set out in the Joint Announcement and the Closing Announcement and Times Holdings II's Intention in relation to the Company, the Board has resolved to defer the decision to the new management of the Company whose appointment is expected to become effective after despatching the Composite Document.

Business Review

Hong Kong Market

Foundation Piling

During the year under review, turnover of the Group's foundation piling segment was HK$2,531 million (31 December 2017: HK$2,494 million). The segment recorded a net loss of HK$23 million as compared to profit of HK$147 million last year. Contribution to net profit decreased as profit arisen from the Foundation Division's work performed for the Group's own property development projects were considered as inter-division profits and was not accounted for in the Group's net profit, and market competition remained intense. During the year under review, EBITDA for the foundation piling segment was HK$17 million as compared to HK$189 million last year; the overall EBITDA margin for the segment was about 1% for the year under review (31 December 2017: about 8%). The Group's major contracts on hand include, inter alia, public housing projects at Pak Tin Estate Phase 10, Queen's Hill in Fanling and Tung Chung Area 54; private residential development projects at Fan Garden Police Married Quarters in Fanling, New Kowloon Inland Lots No. 6563 and No. 6564 in Kai Tak, Tin Shui Wai Area 33 and Area 54, Siu Hong, Tuen Mun; and commercial development projects at Kai Tak twin towers and Taikoo Place Phase 2B.

Chairman's Statement

Property Development and Investment

Disposal of subsidiaries holding the land parcels known as New Kowloon Inland Lot No. 6564 and New Kowloon Inland Lot No. 6563

On 28 March 2018, Omnilink Assets Limited ("Omnilink"), a wholly-owned subsidiary of the Company, disposed of the entire issued capital of Onwards Asia Limited ("Onwards Asia") and all amounts owed to Omnilink at the date of completion, at a total cash consideration of HK$6,348 million. One of the principal assets of Onwards Asia comprised the entire issued capital of Top Genius Holdings Limited, the owner of the development under construction on New Kowloon Inland Lot No. 6564 on Kai Tak Area 1L Site 1, Kai Tak, Kowloon, Hong Kong. Completion of this disposal took place on 16 May 2018. Details of the said disposal have been set out in the announcements of the Company dated 12 March 2018, 21 March 2018 and 11 May 2018 and in the Company's circular dated 19 April 2018.

On 15 February 2019, Omnilink disposed of the entire issued capital of Twinpeak Assets Limited ("Twinpeak") and all amounts owed to Omnilink at the date of completion, at a total cash consideration of HK$3,912 million. One of the principal assets of Twinpeak comprised the entire issued capital of Milway Development Limited, the owner of the development under construction on New Kowloon Inland Lot No. 6563 on Kai Tak Area 1L Site 2, Kai Tak, Kowloon, Hong Kong. Completion of this disposal took place on 15 February 2019 ("NKIL 6563 Disposal"). Details of the said disposal have been set out in the announcements of the Company dated 1 February 2019 and 15 February 2019 and in the Company's circular dated 25 February 2019.

Acquisition of companies holding CentreHollywood

On 28 February 2019, Fundamental Assets IV Limited, a wholly-owned subsidiary of the Company, completed the acquisition of the entire issued capital of Superior Choice Holdings Limited ("Superior Choice") and all amounts which Superior Choice and Excel Pointer Limited ("Excel Pointer"), the wholly-owned subsidiary of Superior Choice, owed to Jinshang International Investment Company Limited as at the date of completion, at a total cash consideration of HK$700 million. One of the principal assets of Superior Choice comprise the entire issued capital of Excel Pointer, the owner of "CentreHollywood" situated at No.151 Hollywood Road, Hong Kong. Details of the said acquisition have been set out in the announcement of the Company dated 28 February 2019.

PRC Market

Updates on disposal of subsidiaries holding The Waterfront in Shanghai ("Shanghai Disposal"), The Riverside in Tianjin ("Tianjin Disposal") and The Pinnacle in Shenyang ("Shenyang Disposal") (collectively, the "Disposals")

Both Shanghai Disposal and Tianjin Disposal were completed in April 2018. The Company expects the Shenyang Disposal will be completed in 2019. Details of the Disposals have been set out in the announcements of the Company dated 13 November 2017, 4 December 2017 and 27 December 2017, respectively and the circular of the Company dated 7 December 2017.

EBITDA for the property development and investment segment increased from about HK$66 million in 2017 to about HK$608 million for the year under review.

Investment Activities

Investment in Hainan Railway

The Group entered into a partnership agreement with Haikou Xincheng District Equity Investment Fund Management Co., Ltd.* (海口新城區股權投資基金管理有限公司) on 6 June 2018 to prepay the capital contribution of RMB300 million to Hengqin Zhonghang Equity Investment Fund Partnership (Limited Partnership)* (橫琴眾航股權投資基金合夥企業(有限合夥)) that will participate in a tender for acquisition of 38.73% interest in Hainan Railway Company Limited* (海南鐵路有限公司) ("Hainan Railway") which mainly engages in the operation and management of Roundabout High Speed Railway in Hainan province* (海南省環島高鐵).

Chairman's Statement

Convertible Bonds

On 13 June 2018, the Group agreed to subscribe for the convertible bonds (the "Convertible Bonds") and the Convertible Bonds was issued by Holistic Capital Investment Limited (the "Subscription") in the principal amount of HK$800 million on 30 June 2018. The coupon rate of the Convertible Bonds is 8% and the term of the Convertible Bonds is 3 years. Holistic Capital Investment Limited is a wholly-owned subsidiary of Hong Kong Air Cargo Carrier Limited, which in turn is wholly-owned by Hong Kong Airlines Limited.

Internal Restructuring of HNA Group Co., Ltd.

On 22 March 2018, the Company was informed by HNA Group Co., Ltd. ("HNA Group") that the subsidiaries of HNA Group had on a conditional basis, as part of an internal restructuring, entered into equity transfer agreements ("Equity Transfer Agreements") in relation to the disposal of about 74.68% of the shares in the Company held by HNA Finance I to HNA Infrastructure Investment Group Co., Ltd* (海航基礎設施投資集團股份有限公司) ("HNA Infrastructure", a company listed on the Shanghai Stock Exchange, stock code: 600515), another subsidiary of HNA Group.

On 8 August 2018, each of (i) Hong Kong HNA Holding Group Co. Limited and Beijing HNA Financial Holdings Co., Ltd.* (北京海航金融控股有限公司) ("Beijing HNA Financial") and (ii) Beijing HNA Financial and HNA Infrastructure entered into a termination agreement in respect of the respective Equity Transfer Agreements.

For details, please refer to the announcements of the Company dated 22 March 2018, 26 June 2018 and 8 August 2018 and the monthly update announcements of the Company dated 20 April 2018, 18 May 2018, 15 June 2018 and 25 July 2018.

Financing Activities

Facility Agreement

Milway Development Limited (the "Borrower"), a then indirect wholly-owned subsidiary of the Company, entered into a facility agreement with a syndicate of banks in respect of term loan facilities of up to HK$5,047 million for a term of 48 months (the "Loan"). The Loan was used to refinance part of the premium paid by the Borrower in respect of its acquisition of the parcel of land at New Kowloon Inland Lot No. 6563 and the construction costs for the development of the land. For details of the facility agreement, please refer to the announcement of the Company dated 6 June 2018. Following the completion of NKIL 6563 Disposal, the Loan was assigned to the purchaser of the said disposal.

Chairman's Statement

Prospects

The Board notes that, upon completion of the Times Transaction, Times Holdings II has become the controlling shareholder of the Company. It is stated in the Joint Announcement that Times Holdings II intends that the Group will continue with the Group's existing foundation piling business (being the principal businesses of the Group). It is also stated that save and except for the proposed change of Board composition, Times Holdings II has no intention to introduce any significant changes to the management of the Company, or to discontinue the employment of the employees. For further details, please refer to the Joint Announcement, the Closing Announcement and the Composite Document.

Financial Review

The Group continues to adopt a prudent financial policy and sustain a sound capital structure with healthy cashflow. As at 31 December 2018, the Group's cash on hand was about HK$4,903 million (31 December 2017: HK$2,369 million) while total assets and net assets (after deducting non-controlling interests) were about HK$17,318 million (31 December 2017: HK$19,769 million) and HK$12,163 million (31 December 2017: HK$12,218 million), respectively. As at 31 December 2018, the Group's net current assets amounted to HK$15,523 million (31 December 2017: HK$12,432 million). As at 31 December 2018, the Group's interest-bearing borrowings (excluding those interest-bearing borrowings of a subsidiary to be disposed of) were about HK$3,833 million (31 December 2017: HK$6,175 million), out of which about HK$299 million (31 December 2017: HK$295 million) were borrowings of fixed interest rate. The Group's gearing ratio, calculated on the basis of total interest-bearing borrowings (excluding those interest-bearing borrowings of a subsidiary to be disposed of) divided by shareholders' equity, was 32% as at 31 December 2018 (31 December 2017: 51%). Contingent liabilities in relation to guarantees of performance bonds increased from HK$256 million as at 31 December 2017 to HK$325 million as at 31 December 2018 while guarantees for end user mortgage loans amounted to HK$5 million (31 December 2017: HK$22 million). Certain of the Group's assets with an aggregate carrying amount of about HK$7,667 million have been pledged to secure certain banking facilities of the Group. The Group's bank borrowings are primarily denominated in Hong Kong dollars. Currency exposure has been monitored and forward contracts will be considered as required.

Employment and Remuneration Policies

The Group, including its subsidiaries in Hong Kong, Macau and the PRC, employed approximately 816 employees as at 31 December 2018. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Fringe benefits include provident fund, medical insurance and training. In addition, share options may also be granted in accordance with the terms of the Group's approved share option scheme.

Chairman's Statement

Appreciation

On behalf of the Board, I would also like to express my sincere gratitude to all our staff for their dedication, hard work and contribution during the year and to thank all our shareholders for their support.

On behalf of the Board

SUN Kin Ho Steven
Co-Chairman

Hong Kong
29 March 2019

Directors and Senior Management Profiles

Co-Chairmen

Mr. CHEN Chao, aged 35, holds a Bachelor of Arts degree from the University of Massachusetts Amherst. He was appointed as the Co-Chairman of the Board and an Executive Director in October 2018. He is responsible for corporate planning and development of the Group. Mr. Chen is currently the vice president of HNA Group Co., Ltd.* (海航集團有限公司) and the chairman of HNA Group (International) Co., Ltd.. Mr. Chen joined HNA Group in 2012. He served as a chief investment officer and a chief innovation officer of HNA Group Co., Ltd.* (海航集團有限公司) as well as the executive chairman of HNA Innovation Finance Group Co., Limited* (海航創新金融集團有限公司), amongst others. Prior to joining HNA Group, he was an associate in the fixed income division at Morgan Stanley Hong Kong and Credit Suisse (Hong Kong) Limited, and a vice president at Deutsche Bank (China) Co., Ltd. Beijing Branch respectively. Mr. Chen is the nephew of Mr. Chen Feng, the co-founder and the chairman of the board of directors of HNA Group Co., Ltd.* (海航集團有限公司), the parent company of HNA Finance I Co., Ltd., the Company's then controlling shareholder.

Mr. SUN Kin Ho Steven, aged 39, joined the Group in August 2018. He is a Co-Chairman of the Board, an Executive Director, the Chairman of the Nomination Committee of the Board and a member of the Remuneration Committee of the Board. He is responsible for setting the Group's business strategy and business development direction. He is currently the Executive Vice President of HNA Group (International) Company Limited, an executive director and the chairman of the board of directors of China Shun Ke Long Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 974) and a director of HNA Finance I Co., Ltd., the then controlling shareholder of the Company. Mr. Sun joined HNA Group Co., Ltd.* (海航集團有限公司) in August 2007. He served as the president of Hong Kong International Financial Services Limited, chief investment officer of the investment development department of HNA Holding International Investment Group Co., Limited and the operational director of investment banking management unit of HNA Modern Logistics Group Co., Limited* (海航現代物流集團有限公司). Mr. Sun has more than 10 years of working and management experience in finance and capital operations, corporate strategy development and operations management.

Executive Directors

Mr. HE Jiafu, aged 50, holds a Master's degree in Business Administration from Maastricht School of Management in the Netherlands. Mr. He joined the Group in August 2018. He is a Vice Chairman of the Board, an Executive Director and the Chief Executive Officer of the Company, a member of each of the Nomination Committee of the Board and the Remuneration Committee of the Board. He is primarily responsible for corporate finance and investment policies of the Group, the daily operations of the Group and daily management of the Board. Mr. He is also a director of a subsidiary of the Company. Mr. He currently serves as the chairman of HNA Holding Group Co., Ltd.* (海航實業集團有限公司) and the chairman of the board of directors of HNA Retailing Holding Co., Ltd.* (海航商業控股有限公司). Mr. He previously served as the vice chairman of the board of the directors and the chief executive officer of Gongxiao Daji Group Holding Ltd.* (供銷大集控股有限公司). He was also an executive director, the chairman of the board of directors and chairman of nomination committee of the board of directors of China Shun Ke Long Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 974) between May 2017 and March 2018. He was a chairman, a director and the president of CCOOP Group Co., Ltd* (供銷大集集團股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000564) between January 2017 and October 2018 successively.

Mr. FUNG Chiu Chak Victor, aged 64, joined the Group in May 1994. He is a Vice Chairman of the Board and a member of the Remuneration Committee of the Board. Mr. Fung is also director of various subsidiaries of the Company. He is primarily responsible for business development, strategic planning as well as general and project management of the Group. Mr. Fung has over 39 years' experience in the field of consulting engineering, construction management and property development.

Directors and Senior Management Profiles

Mr. LIU Junchun, aged 55, holds a master's degree in international economic law from Peking University. He is a Vice Chairman of the Board. He is responsible for public relations of the Group. Mr. Liu joined HNA Group Co., Ltd.* (海航集團有限公司) in 2000. He served as the executive vice president and standing executive vice president of HNA Group Co., Ltd.* (海航集團有限公司), vice chairman and chief executive officer of HNA Logistics Group Co., Ltd.* (海航物流集團有限公司) and vice chairman of the board of HNA Group (International) Company Limited, amongst others. Mr. Liu was a director of Tianjin Tianhai Investment Co., Ltd. (an A-share listed company, listed on the Shanghai Stock Exchange, stock code: 600751) from November 2013 to January 2015. He was the representative of the 14th People's Congress of Haikou City and 4th People's Congress of Hainan Province, a member of Internal and Judicial Affairs Committee and a member of the Standing Committee of the 4th People's Congress of Hainan Province.

Mr. HUANG Qijun, aged 41, was awarded a bachelor's degree in Economics from Wuhan University in 1999, a master's degree in Engineering from Dalian University of Technology in 2009, and a further master's degree in Business Administration from Zhongshan University in 2014. He is an Executive Director of the Company. He was appointed as the Chairman of the Board, the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Board from July 2017 to August 2018. He is responsible for business development of the Group. He currently serves as a director of HNA Group Co., Ltd.* (海航集團有限公司) and is a director and the chairman of the board of HNA Holding Group Co., Ltd.* (海航實業集團有限公司). From 2000 to 2009, Mr. Huang held various positions within HNA Group Co., Ltd.* (海航集團有限公司) as a deputy general manager and general manager of different departments, including serving as assistant general manager of the securities department, capital operations administration manager and general manager of the project development and management department. In 2009, Mr. Huang was appointed as the vice chairman of Nexis Securities Co., Ltd. where he served until 2011 and from 2011 to 2016, he worked in various capacities as the assistant to the executive president of HNA Group Co., Ltd.* (海航集團有限公司), as well as the financial controller, executive vice-president and deputy chief executive officer of HNA Group Co., Ltd.* (海航集團有限公司).

Mr. GUO Ke, aged 40, holds a doctoral degree of Industrial Economics and Investment from Northwest University in the PRC. He was appointed as an Executive Director of the Company in August 2018. He is primarily responsible for business development of the Group. From December 2017 to February 2019, Mr. Guo was served as an executive director, the chairman and co-chairman of the board of directors, the chairman and co-chairman of each of the executive committee and investment committee, the chairman of the nomination committee, and the member of the remuneration committee of CWT International Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, SEHK: 00521). Mr. Guo is currently the vice-chairman and chief executive officer of HNA Group (International) Company Limited (海航集團 (國際) 有限公司). Mr. Guo was the vice-chairman and chief executive officer of HNA Innovation Finance Group Co., Limited (海航創新金融集團有限公司). Mr. Guo joined HNA Group Co., Ltd.* (海航集團有限公司) in 2004, and was engaged with senior management positions, namely deputy general manager of HNA Group Finance Co., Ltd.* (海航集團財務有限公司), vice-chairman and chief executive officer of Jinhai Heavy Industries Co., Ltd.* (金海重工股份有限公司) and was also the vice-chairman and president of HNA Logistics Group Co., Ltd.* (海航物流集團有限公司). He was also the chairman and subsequently was re-designated as to vice-chairman and chief executive officer of Tianjin Tianhai Investment Co., Ltd.* (天津天海投資發展股份有限公司) (renamed as HNA Technology Co., Ltd.*, 海航科技股份有限公司) (a Shanghai A-share listed company, Stock Code: 600751 and B-share listed company, Stock Code: 900938) for the period from February 2015 to March 2017.

Directors and Senior Management Profiles

Mr. ZHANG Peihua, aged 48, holds a Master degree of accounting from the Xi'an Jiaotong University. He was appointed as an Executive Director in November 2018. He is responsible for overseeing external affairs of the Group. Mr. Zhang is currently the financial director of HNA Logistics Group Co., Ltd.* (海航物流集團有限公司) and a director of HNA Finance I Co., Ltd., the then controlling shareholder of the Company. Mr. Zhang is also a director of a subsidiary of the Company. Mr. Zhang joined HNA Group Co., Ltd.* (海航集團有限公司) in 2000. Mr. Zhang was an executive director of HNA Infrastructure Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 357) from May 2014 to August 2016. He also held various positions within HNA Group Co., Ltd.* (海航集團有限公司), including the deputy manager of the budget control office of HNA Holding Group Co., Ltd.* (海航實業集團有限公司), the deputy general manager and chief financial officer of HNA Infrastructure Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 357) as well as the chief financial officer of each of HNA Airport Group Co., Ltd.* (海航機場集團有限公司) and HNA International Tourism Island Development and Construction (Group) Company Limited* (海航國際旅遊島開發建設(集團)有限公司), amongst others.

Non-Executive Directors

Mr. TANG King Shing, **GBS, PDSM**, aged 64, holds a master's degree in International and Public Affairs from The University of Hong Kong. He was appointed as a Non-executive Director of the Company in July 2017. He took office as the Commissioner of Police in Hong Kong in January 2007, where he remained until his retirement in January 2011. He was awarded the honour of Gold Bauhinia Star and Hong Kong Police Medal for Distinguished Service in 2011 and 2004 respectively. Mr. Tang was appointed as a member of the 12th and 13th National Committee of the Chinese People's Political Consultative Committee of the People's Republic of China in 2013 and 2018 respectively. Mr. Tang has been appointed as a director of Hong Kong News-Expo since June 2013. He is currently the chairman of the Country and Marine Parks Board of the Agriculture, Fisheries and Conservation Department and an honorary advisor of Hong Kong Strategy. Mr. Tang served as an independent non-executive director and chairman of the nomination committee of Kingboard Chemical Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 148), from August 2013 until his resignation in November 2016. He has been an independent non-executive director of Tai United Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 718) since his appointment in February 2017.

Mr. YANG Han Hsiang, aged 40, holds a master's degree in Business Administration from INSEAD in France, and a bachelor's degree in Business Administration from University of Michigan, Ann Arbor, USA. He was appointed as a Non-executive Director of the Company in August 2018. He was also appointed as a Non-executive Director of the Company from 1 April 2014 to 17 February 2016. Mr. Yang was a managing director in the real estate group of KKR Asia Limited and the Blackstone Group. As a real estate professional, Mr. Yang has involved in evaluating real estate investment opportunities globally with focus on Greater China. Mr. Yang was a non-executive director, a member of the remuneration committee and a member of the strategic investment committee of the board of directors of Beijing Capital Grand Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1329) from December 2016 to February 2018.

Directors and Senior Management Profiles

Independent Non-Executive Directors

Mr. FAN Chor Ho, SBS, BBS, JP, aged 77, was appointed as an Independent Non-executive Director of the Company in August 1993. Mr. Fan currently also acts as the Chairman of the Audit Committee, a Member of the Remuneration Committee and the Nomination Committee of the Board. He is presently an independent non-executive director of Perfect Group International Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 3326). He was a non-executive director of Hong Kong Exchanges and Clearing Limited from 3 April 2000 to 15 April 2003. He was a member of the Advisory Committee to the Securities and Futures Commission from 1993 to 1997 and again serving in the same capacity since 2001 until 2007. He was holding appointments on Government boards and committees, including chairman of the Chinese Medicine Council of Hong Kong from 13 September 2005 to 12 September 2011. He was awarded the Badge of Honour in 1991 and was made a Justice of the Peace in 1993, and was awarded Bronze Bauhinia Star in July 2005 and the Silver Bauhinia Star in July 2011.

Mr. TSE Man Bun, aged 76, was appointed as an Independent Non-executive Director of the Company in September 2004. Mr. Tse is currently the Chairman of the Remuneration Committee, a Member of the Audit Committee and the Nomination Committee of the Board. He is presently an independent non-executive director of HSBC Insurance (Asia) Limited, HSBC Life (International) Limited, and China Fishery Group Limited (listed on the Singapore Exchange Limited, stock code: B0Z.SI). He has been an independent non-executive director of Crystal International Group Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 2232) since his appointment in January 2005. Mr. Tse has over 41 years' working experience in the banking industry. He joined The Hongkong & Shanghai Banking Corporation Limited ("HSBC") in 1968 and retired from the bank in December 2002. During his service with HSBC, he was assigned many key positions, including senior credit manager; managing director, Wayfoong Finance Limited and Wayfoong Credit Limited; senior executive, corporate and institutional banking; and senior executive, Commercial Banking. After his retirement from HSBC, he served as a director and chief executive of Allied Banking Corporation (Hong Kong) Limited from April 2003 to October 2004. He was an executive director from December 2004 to September 2007 and a non-executive director from September 2007 to May 2009 of S E A Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 251). Apart from the banking field, Mr. Tse is well-versed in the reviewing and analysis of corporate financial statements and has an in-depth understanding of the commerce and manufacturing industries.

Mr. LUNG Chee Ming George, aged 62, was appointed as an Independent Non-executive Director of the Company in August 2007. Mr. Lung currently also acts as a Member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Board. He is an Executive Regional Director of Manulife (International) Limited leading a team of over 1,000 insurance/financial advisers. He first joined Manulife in 1990 and has since achieved outstanding results. Actively involved in community services, Mr. Lung was amongst one of the Ten Outstanding Young Persons of Hong Kong in 1995 and was the chairman of The Outstanding Young Persons Association in 2003 to 2004. Mr. Lung was awarded the Medal of Honour and Bronze Bauhinia Star by the Government of Hong Kong Special Administrative Region in 2001 and 2014. Furthermore, Mr. Lung is a committee member of the Board of Governors of Hong Kong Shue Yan University, a member of the Guangdong Daya Bay Nuclear Power Station/Lingao Nuclear Power Station, Nuclear Safety Consultative Committee, the founding chairman of Hong Kong Youth Exchange Promotion United Association and a chairperson of "Passing on the Torch" National Education Activity Series of Education Bureau. He is also the executive vice chairman and secretary general of Federation of Hong Kong Guangdong Community Organisations. Mr. Lung is currently a member of the National Committee of the Chinese People's Political Consultative Conference and Justice of the Peace of Hong Kong Special Administrative Region. He served as a non-executive director of Lamtex Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1041) from July 2015 to December 2018.

Directors and Senior Management Profiles

Mr. LI Kit Chee, aged 64, was appointed as an Independent Non-executive Director of the Company in March 2013. Mr. Li currently acts as a Member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Board. He holds a Bachelor Degree of Social Sciences from the University of Hong Kong. He has over 34 years of experience in auditing, accounting and secretarial services and is a fellow member of both the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. He is a managing director of Arthur Li, Yau & Lee C.P.A. Limited, and also a director of Cheong Yip Secretary Limited which is principally engaged in the provision of corporate services. He is also an independent non-executive director of National Arts Entertainment and Culture Group Limited (a company listed on the GEM of the Hong Kong Stock Exchange, stock code: 8228). He served as an independent non-executive director of Henry Group Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 859) from April 2007 to February 2018.

Mr. CHONG Kin Ho, aged 43, obtained a Bachelor of Arts degree in Accountancy from The Hong Kong Polytechnic University in November 1998 and a Master of Science degree in Professional Accountancy from the University of London in August 2018. Mr. Chong has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants ("HKICPA") since February 2002 and became a fellow member of the HKICPA in May 2015. He has also been a fellow member of The Association of Chartered Certified Accountants and a fellow member of The Taxation Institute of Hong Kong since October 2006 and September 2010, respectively. Mr. Chong has also been admitted as an ordinary member of The Society of Chinese Accountants & Auditors since May 2010, and is currently a certified tax adviser registered with The Taxation Institute of Hong Kong.

Mr. Chong has over 20 years of experience in accounting, auditing, taxation, finance and business advisory. He is an independent non-executive director of China Shun Ke Long Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 974). Since December 2004, Mr. Chong has been the sole proprietor of Flexkin & Co., a certified public accountant practicing firm in Hong Kong. He has also been a director of Startup Business Services Limited since October 2014 and Hong Kong General Chamber of Young Entrepreneurs Limited since August 2017. From July 2005 to July 2006, Mr. Chong worked as a senior accountant in eSun Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 571). He worked in Lippo China Resources Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 156), from September 2004, and his last held position when he left in July 2005 was senior accountant. Between March 2003 and September 2004, he was a finance and administration manager of VITOVA LIMITED, and from September 1998 to March 2003, Mr. Chong worked in Deloitte Touche Tohmatsu, with his last held position as senior consultant.

Directors and Senior Management Profiles

Senior Management

Mr. CHIU Chin Hung, aged 66, graduated from The University of Aberdeen, Scotland. He joined the Group in July 1994. Mr. Chiu was appointed as the President of the Foundation Division of the Group in July 2017. He is primarily responsible for the business development and management of the Group's Foundation Division. Mr. Chiu has over 40 years' experience in foundation design and construction works and is a Fellow Member of The Institute of Civil Engineers and The Hong Kong Institution of Engineers as well as a Chartered Engineer. Mr. Chiu has been a Council Member of The Hong Kong Construction Association representing Tysan Foundation Limited since 2001.

Mr. LAU Kin Fai, aged 57, joined the Group in July 2008. Mr. Lau was appointed as the President of the Real Estate Development Division of the Group in July 2017. Mr. Lau is primarily responsible for business development and management of the Group's property development business. He is also the General Manager of the China Division in charge of the Group's Property Development Division in the PRC. Prior to joining the Group, he has over 24 years' experience in the field of quantity surveying and housing development with the latter 14 years working in the Hong Kong Housing Society. Mr. Lau is a Fellow Member of the Hong Kong Institute of Surveyors and the Royal Institution of Chartered Surveyors.

Miss WANG Xiaoqiong, aged 33, joined the Group in July 2016. As the Financial Controller of the Group, Miss Wang is primarily responsible for finance matters of the Group. She has over 10 years' experience in the finance and accounting field. She is qualified as a member of Institute of Public Accountants, China Intermediate Economist and a Senior International Finance Manager certified by the International Finance Management Association.

Mr. LAI Kok Wai, aged 60, joined the Group in July 1994. As a Director of Tysan Foundation Holdings Limited, Tysan Foundation Limited, Tysan Foundation Geotechnical Limited, Tysan Contractors (Hong Kong) Limited and Tysan Construction (Macau) Limited. Mr. Lai is responsible for the planning, coordinating and controlling of the technical operations and administration of the Foundation Division. He has over 35 years' experience in civil engineering, building and foundation design and construction works and is a member of both The Hong Kong Institution of Engineers (MHKIE) and The Institution of Civil Engineers United Kingdom (MICE). Mr. Lai also represents Tysan Foundation Limited to sit in various Government's panels and committees. Mr. Lai is also a Director of Proficiency Engineering Limited and Proficiency Equipment Limited. He is also responsible for the business development and management of machinery leasing and trading.

Miss WONG Suk Han Kitty, aged 55, joined the Group in June 2007. As the Company Secretary of the Group and Director of Corporate Affairs, Miss Wong is primarily responsible for company secretarial matters, legal, human resources and administration, and investor relations matters. She has over 21 years of experience in the corporate finance and legal fields. Miss Wong is a Solicitor qualified in Hong Kong and has been admitted as a Solicitor of the Supreme Court of England and Wales.

* English translations of the company names from the Chinese language are marked with "*" and are provided for identification purpose only.

Corporate Governance Report

The Company is committed to maintaining good corporate governance and has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For the financial year ended 31 December 2018, the Company has fully complied with the CG Code save as disclosed in sections (B) and (F) below.

(A) Board of Directors

The board of directors of the Company (the "Board" and the "Directors" respectively) oversees the management, business, strategic directions and financial performance of the Company and its subsidiaries (the "Group"). It has delegated the day-to-day responsibility to the executive directors (the "Executive Directors") and senior management of the Company (the "Senior Management") who perform their duties under the leadership of the chief executive officer of the Company (the "Chief Executive Officer"). At the time of delegation, the Board gives clear directions to Executive Directors as to the matters that must be approved by the Board before decisions can be made on behalf of the Group. The functions reserved to the Board and delegated to the Executive Directors and Senior Management are reviewed by the Board to ensure that such delegation remains appropriate to the needs of the Group. The management has ensured sufficient explanation and information were provided to the Board to enable it to make an informed assessment of financial and other information put before it for approval. The Board members have access to appropriate business documents and information about the Group on a timely basis.

(B) Board Composition

The Board comprises a total of 15 Directors, with eight Executive Directors, being Mr. Chen Chao, Mr. Sun Kin Ho Steven, Mr. He Jiafu, Mr. Fung Chiu Chak, Victor, Mr. Liu Junchun, Mr. Huang Qijun, Mr. Guo Ke and Mr. Zhang Peihua; two non-executive Directors ("Non-executive Director(s)'), being Mr. Tang King Shing and Mr. Yang Han Hsiang; and five independent non-executive Directors ("Independent Non-executive Director(s)"), being Mr. Fan Chor Ho, Mr. Tse Man Bun, Mr. Lung Chee Ming, George, Mr. Li Kit Chee and Mr. Chong Kin Ho. The Board comprises Directors with diverse backgrounds and/or extensive expertise in the Group's business. The Independent Non-executive Directors have a wide range of business and financial experience. They represent one-third of the Board who consistently exercise independent judgment. With a balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors), there is a strong independent element on the Board. The balance of skills, experience and diversity of perspectives of the Board contribute to the effective direction of the Company.

Pursuant to Rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the Board. On 26 October 2018, Mr. Leung Kai Cheung resigned as Independent Non-executive Director. Together with eight Executive Directors, two Non-executive Directors and four Independent Non-executive Directors, there were a total of 14 Directors. On 21 January 2019, Mr. Chong Kin Ho was appointed as an additional Independent Non-executive Director. Hence, the Company has failed to meet the requirement under Rule 3.10A of the Listing Rules, where the Company is required to appoint additional independent non-executive directors representing at least one-third of the Board for the period between 26 October 2018 and 20 January 2019. Nevertheless, the Company met the requirements of Rule 3.11 of the Listing Rules that the Company should appoint an additional independent non-executive director to meet such requirement under Rule 3.10A within three months after failing to meet such requirements.

Corporate Governance Report

(B) Board Composition *(Cont'd)*

The Company has received written confirmations of independence from all the Independent Non-executive Directors for the financial year ended 31 December 2018 in accordance with Rule 3.13 of the Listing Rules. The Board is of the view that all the Independent Non-executive Directors are independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules.

Changes in information of members of the Board and Board committees since the publication of the interim report of the Company for the six months ended 30 June 2018 and up to the date of this report as follows:–

(1) Mr. Chen Chao was appointed as an Executive Director and a co-chairman of the Board (the "Co-Chairman") with effect from 26 October 2018.

(2) Mr. Sun Kin Ho Steven stepped down as the chairman of the Board (the "Chairman") and was re-designated as a Co-Chairman and appointed as an authorised representative of the Company (the "Authorised Representative") with effect from 26 October 2018.

(3) Mr. Wong Tai Lun Kenneth resigned as an Executive Director and an Authorised Representative, but was appointed as a director of Legal Affairs of the Company with effect from 26 October 2018.

(4) Mr. Leung Kai Cheung resigned as an Independent Non-executive Director, as well as a member of each of the audit committee of the Board ("Audit Committee") and the remuneration committee of the Board ("Remuneration Committee") with effect from 26 October 2018.

(5) Mr. Lung Chee Ming, George was appointed as a member of the Remuneration Committee with effect from 26 October 2018 and resigned as an non-executive director of Lamtex Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1041) with effect from 21 December 2018.

(6) Mr. Zhang Peihua was appointed as an Executive Director with effect from 9 November 2018.

(7) Mr. Mu Xianyi resigned as an Executive Director, the vice chairman of the Board, the Chief Executive Officer, a member of each of the nomination committee of the Board ("Nomination Committee") and the Remuneration Committee and the alternate to Mr. Fung Chiu Chak, Victor as an Authorised Representative with effect from 9 November 2018, but was appointed as the chairman of a wholly-owned subsidiary of the Company.

(8) Mr. He Jiafu was appointed as the vice chairman of the Board, the Chief Executive Officer, a member of each of the Nomination Committee and the Remuneration Committee and the alternate to Mr. Fung Chiu Chak, Victor as an Authorised Representative with effect from 9 November 2018.

(B) Board Composition *(Cont'd)*

(9) Mr. Chong Kin Ho was appointed as an Independent Non-executive Director and a member of the Audit Committee with effect from 21 January 2019.

(10) with effect from the date of the composite document relating to the mandatory unconditional cash offer to be made by Times Holdings II Limited ("Offers"):

(a) Mr. Chen Chao will resign as the Co-Chairman;

(b) Mr. Sun Kin Ho Steven will resign as the Co-Chairman, the chairman of the Nomination Committee, a member of the Remuneration Committee and an Authorised Representative;

(c) Mr. He Jiafu will resign as the vice chairman of the Board, the Chief Executive Officer, a member of each of the Nomination Committee and the Remuneration Committee and the alternate to Mr. Fung Chiu Chak, Victor as an Authorised Representative;

(d) Mr. Liu Junchun will resign as the vice chairman of the Board;

(e) Mr. Chong Kin Ho will resign as a member of the Audit Committee; and

(f) Mr. Fung Chiu Chak, Victor will be appointed as a member of the Nomination Committee.

(11) Each of Mr. Chen Chao, Mr. He Jiafu, Mr. Liu Junchun, Mr. Huang Qijun, Mr. Guo Ke, Mr. Zhang Peihua, Mr. Tang King Shing, Mr. Yang Han Hsiang and Mr. Chong Kin Ho will resign as a Director with effect from the day immediately after the first closing date of the Offers.

An updated list of Directors identifying their roles and functions and whether they are Executive Directors, Non-executive Directors or Independent Non-executive Directors has been maintained on www.hkicimgroup.com (the "Company's website") and www.hkexnews.hk (the "Stock Exchange's website").

Corporate Governance Report

(C) Chairman, Co-Chairman and Chief Executive Officer

There is a clear division on the roles of co-chairmen of the Board (the "Co-Chairmen") and Chief Executive Officer which are performed by different individuals. This ensures a balanced distribution of power and authority.

Mr. Chen Chao and Mr. Sun Kin Ho Steven, the Co-chairmen, both provide leadership to the Board. Mr. Chen Chao is responsible for corporate planning and development of the Group while Mr. Sun Kin Ho, Steven, is responsible for setting the Group's business strategy and business development direction.

Prior to the appointment of Mr. Sun Kin Ho Steven on 3 August 2018, Mr. Huang Qijun was a Chairman during the period between 15 July 2017 and 2 August 2018.

The Co-Chairmen take primary responsibility for the following matters:–

(1) to ensure that all Directors are properly briefed on issues arising at Board meetings;

(2) to ensure that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;

(3) to ensure that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner; drawing up and approving the agenda for each Board meeting. They should take into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Co-Chairmen may delegate this responsibility to a designated Director or the company secretary;

(4) to ensure good corporate governance practices and procedures are established;

(5) to encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the Company, encourage Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that Board decisions fairly reflect Board consensus;

(6) to hold meetings at least annually with the Independent Non-executive Directors without the other Directors' presence;

(7) to ensure that appropriate steps are taken to provide effective communication with shareholder(s) of the Company (the "Shareholder(s)") and that their views are communicated to the Board as a whole; and

(8) to promote a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors.

Mr. He Jiafu, vice chairman and Chief Executive Officer, was appointed as the Chief Executive Officer on 9 November 2018. The Chief Executive Officer is primarily responsible for corporate finance and investment policies of the Group, the daily operations of the Group and daily management of the Board. Before the appointment of Mr. He Jiafu as the Chief Executive Officer, Mr. Mu Xianyi was the Chief Executive Officer during the period between 15 December 2017 and 8 November 2018.

(D) Board Proceedings

The Board meets at least four times a year at approximately quarterly intervals and additional meetings will be held as and when required. During the financial year ended 31 December 2018, the Board held 21 meetings (save for the executive Board meetings held between the Executive Directors during the normal course of business of the Company). Attendance by a Director at a meeting by means of a conference telephone or other communications equipment is allowed under the bye-laws of the Company (the "Bye-laws").

The company secretary of the Company (the "Company Secretary") assists the Co-Chairmen (or the Chairman as the case may be) in establishing the meeting agenda and each Director may request inclusion of items in the agenda. A notice of at least 14 days is given to all Directors for regular Board meetings. Relevant information is circulated to all Directors normally three days in advance of the regular Board meetings to enable the Board to make informed decisions and perform their duties and responsibilities.

With the assistance of the Company Secretary, the Co-Chairmen (or the Chairman as the case may be) ensure that all Directors are properly briefed on issues arising at Board meetings, and that they receive in a timely manner, adequate information which are accurate, clear, complete and reliable to assist them to make informed decisions and discharge their duties as Directors. The Board members have separate and independent access to the Senior Management whenever necessary. Upon reasonable request, the Directors and Board committees will also have access to independent professional advice in appropriate circumstances at the Company's expense. The Company has arranged appropriate insurance cover for Board members and Senior Management, and the Company reviews the coverage on an annual basis or as appropriate.

Meeting minutes of the Board and Board committees are recorded in appropriate details and draft minutes are circulated to respective members for comments before being approved by the Board and Board committees. All minutes are kept by the Company Secretary, or the secretary of the Board committees, as the case may be, and are open for inspection by the Directors.

According to the Bye-laws and the Listing Rules, any material transaction that involves a conflict of interests for a substantial shareholder(s) or a Director(s) will be considered and dealt with by the Board at a duly convened Board meeting. The interested Director(s) shall abstain from voting and shall not be counted in the quorum at meetings for approving transactions in which such Director(s) or any of his/their associates has/have a material interest.

The Company provides Board members with monthly management reports which contain changes and developments of the Group's business and helps Board members to make informed decisions and discharge their duties and responsibilities as Board members.

Corporate Governance Report

(D) Board Proceedings *(Cont'd)*

The attendance of each Board member for the Board meetings and the general meetings held during the financial year ended 31 December 2018 is as follows:–

Name of Directors	**Board Meeting Attendance**	**Annual General Meeting Attendance**
Executive Directors		
Mr. Chen Chao (1) *(Co-Chairman)*	1/4	–
Mr. Sun Kin Ho Steven (2) *(Co-Chairman)*	8/8	–
Mr. He Jiafu (3) *(Vice Chairman and Chief Executive Officer)*	1/8	–
Mr. MU Xianyi (4)	12/18	1/1
Mr. Fung Chiu Chak, Victor *(Vice Chairman)*	16/21	1/1
Mr. Liu Junchun *(Vice Chairman)*	19/21	0/1
Mr. Mung Kin Keung (5)	2/11	0/1
Mr. Huang Qijun	5/21	0/1
Mr. Guo Ke (6)	3/8	–
Mr. Zhang Peihua (7)	2/3	–
Mr. Li Xiaoming (8)	2/13	0/1
Mr. Wong Tai Lun Kenneth (9)	11/17	1/1
Mr. Mung Hon Ting Jackie (10)	8/13	1/1
Non-executive Directors		
Mr. Tang King Shing	12/21	1/1
Mr. Yang Han Hsiang	6/8	–
Mr. Tang Kit (11)	3/13	0/1
Independent Non-executive Directors		
Mr. Fan Chor Ho	20/21	1/1
Mr. Tse Man Bun	21/21	1/1
Mr. Lung Chee Ming, George	13/21	1/1
Mr. Li Kit Chee	20/21	0/1
Mr. Leung Kai Cheung (12)	15/17	1/1

Notes:

1. Appointment effective from 26 October 2018
2. Appointment effective from 3 August 2018
3. Appointment effective from 3 August 2018
4. Resignation effective from 9 November 2018
5. Appointed effective from 1 February 2018 and resignation effective from 3 August 2018

(D) Board Proceedings *(Cont'd)*

Notes: *(Cont'd)*

6. Appointment effective from 24 August 2018
7. Appointment effective from 9 November 2018
8. Resignation effective from 24 August 2018
9. Resignation effective from 26 October 2018
10. Resignation effective from 3 August 2018
11. Resignation effective from 24 August 2018
12. Resignation effective from 26 October 2018

(E) Directors' Continuous Professional Development

All Board members are encouraged to attend training courses relevant on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates at the Company's expenses.

During the year under review, Board members have participated in continuous professional development to develop and refresh their knowledge and skills as listed company directors, and provided the Company with their records of the training received for the year which comprised attending seminars and talks, and reading legal and regulatory updates and other reference materials. A summary of the records of their training is as follows:–

Name of Directors	Reading Regulatory Updates	Attending trainings/ briefings/ seminars/ conference relevant to Directors' duties
Executive Directors		
Mr. Chen Chao (1) *(Co-Chairman)*	✓	✓
Mr. Sun Kin Ho Steven (2) *(Co-Chairman)*	✓	✓
Mr. He Jiafu (3) *(Vice Chairman and Chief Executive Officer)*	✓	✓
Mr. MU Xianyi (4)	✓	✓
Mr. Fung Chiu Chak, Victor *(Vice Chairman)*	✓	✓
Mr. Liu Junchun *(Vice Chairman)*	✓	✓
Mr. Mung Kin Keung (5)	✓	✓
Mr. Huang Qijun	✓	✓
Mr. Guo Ke (6)	✓	✓
Mr. Zhang Peihua (7)	✓	✓
Mr. Li Xiaoming (8)	✓	✓
Mr. Wong Tai Lun Kenneth (9)	✓	✓
Mr. Mung Hon Ting Jackie (10)	✓	✓

Corporate Governance Report

(E) Directors' Continuous Professional Development *(Cont'd)*

Name of Directors	Reading Regulatory Updates	Attending trainings/ briefings/ seminars/ conference relevant to Directors' duties
Non-executive Directors		
Mr. Tang King Shing	✓	✓
Mr. Yang Han Hsiang	✓	✓
Mr. Tang Kit (11)	✓	✓
Independent Non-executive Directors		
Mr. Fan Chor Ho	✓	✓
Mr. Tse Man Bun	✓	✓
Mr. Lung Chee Ming, George	✓	✓
Mr. Li Kit Chee	✓	✓
Mr. Leung Kai Cheung (12)	✓	✓

Notes:

1. Appointment effective from 26 October 2018
2. Appointment effective from 3 August 2018
3. Appointment effective from 3 August 2018
4. Resignation effective from 9 November 2018
5. Appointed effective from 1 February 2018 and resignation effective from 3 August 2018
6. Appointment effective from 24 August 2018
7. Appointment effective from 9 November 2018
8. Resignation effective from 24 August 2018
9. Resignation effective from 26 October 2018
10. Resignation effective from 3 August 2018
11. Resignation effective from 24 August 2018
12. Resignation effective from 26 October 2018

(F) Appointment, Re-Election and Removal of Directors

The Company has a formal, considered and transparent procedure for the appointment and removal of Directors. The Nomination Committee led by an Executive Director and comprising a majority of Independent Non-executive Directors, plays an important role to identify and nominate suitable candidates for the Board's consideration as additional Directors or to fill in casual vacancies on the Board and making recommendations to the shareholders for nomination of Directors for re-election at general meetings. According to the Bye-laws, all Directors newly appointed to fill a casual vacancy are subject to election at the next following general meeting following their appointment. During the year, the Company has complied with the CG Code save for the following deviations.

Non-executive Directors and independent non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws. As such, the Board is of the view that non-executive Directors and independent non-executive Directors do not have to be appointed for a specific term.

The names and biographical details of the Directors who will offer themselves for election or re-election at the next annual general meeting will be included in the circular to Shareholders containing the notice of the forthcoming annual general meeting.

(G) Responsibilities of Directors

The Board members acknowledge their responsibility for preparing the consolidated financial statements of the Group for the financial year ended 31 December 2018.

Every Director is required to know his responsibilities as a Director and of the conduct, business activities and development of the Group, and should act in good faith, exercise due diligence and act in the best interests of the Group and its shareholders. On appointment, new Directors will receive a comprehensive, formal induction on the Group's business and his responsibilities as a Director.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules ("Model Code") as the code of conduct regarding directors' securities transactions. Having made specific enquiry, all the Directors have confirmed that they have fully complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions for the year under review.

The Board would review regularly the contribution required from a Director to perform his responsibilities to the Company, and whether he is spending sufficient time performing them.

Corporate Governance Report

(H) Board Committees

The Board has established its Audit Committee, Remuneration Committee and Nomination Committee.

Audit Committee

The Audit Committee was first established in 1999. Its terms of reference were revised with reference to the CG Code effective on 11 June 2015 and they have been published on the Company's website and the Stock Exchange's website.

The Audit Committee is responsible for reviewing and supervising the financial reporting process, risk management and internal control system of the Group, reviewing the Group's financial information, compliance and providing advice and comments to the Board.

The Audit Committee comprises of five Independent Non-executive Directors. Mr. Fan Chor Ho is the Chairman and the other members are Mr. Tse Man Bun, Mr. Lung Chee Ming, George, Mr. Li Kit Chee and Mr. Chong Kin Ho who became a member on 21 January 2019. Mr. Leung Kai Cheung was a member until his resignation became effective on 26 October 2018. Each member of the Audit Committee possesses in-depth experience in his own profession. Mr. Fan Chor Ho, Mr. Tse Man Bun, Mr. Li Kit Chee and Mr. Chong Kin Ho possess appropriate accounting or relevant financial management expertise and meet the requirements of Rule 3.21 of the Listing Rules. The Company Secretary is the secretary of the Audit Committee. The composition of the Audit Committee complies with the requirements of chairmanship and independence of the Listing Rules.

During the year, the Audit Committee held two meetings. The attendance of each committee member is as follows:–

Name of Audit Committee Members	**Attendance**
Independent Non-executive Directors	
Mr. Fan Chor Ho *(Chairman of the Audit Committee)*	2/2
Mr. Tse Man Bun	2/2
Mr. Lung Chee Ming, George	2/2
Mr. Li Kit Chee	2/2
Mr. Leung Kai Cheung (1)	2/2

Notes:

1. Resignation effective from 26 October 2018

During the year, the Audit Committee has reviewed the Group's interim results for the six months ended 30 June 2018, final results for the financial year ended 31 December 2018, and reviewed and discussed with the external auditor over the financial reporting of the Group. The Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and discussed with the management in relation to auditing, system of internal control, and financial reporting matters. The Audit Committee has reviewed the connected transaction(s)/internal audit related party transaction(s) entered into by the Group during the year, made recommendation to the Board on the reappointment of the external auditor and reviewed and approved the remuneration of the external auditor. The Audit Committee has also reviewed the whistleblowing policy and anti-bribery and anti-corruption compliance policy.

(H) Board Committees *(Cont'd)*

Remuneration Committee

The Remuneration Committee was established in 2005. Its terms of reference were revised with reference to the CG Code effective on 1 April 2012 and they have been published on the Company's website and the Stock Exchange's website. The Remuneration Committee is responsible for making recommendations to the Board on the Company's remuneration policy and structure for all Directors and members of the Senior Management. It is the Group's policy to provide remuneration packages at fair market value in order to attract and retain high quality staff. No Directors or any of his associates, is involved in determining his own remuneration.

The Remuneration Committee comprises seven members. Mr. Tse Man Bun, an Independent Non-executive Director, is the Chairman and the other members are Mr. Sun Kin Ho Steven, Mr. He Jiafu, Mr. Fung Chiu Chak, Victor who are Executive Directors, and Mr. Fan Chor Ho, Mr. Lung Chee Ming, George and Mr. Li Kit Chee who are Independent Non-executive Directors. The composition of the Remuneration Committee complies with the requirements of chairmanship and independence of the Listing Rules.

During the financial year ended 31 December 2018, the Remuneration Committee held seven meetings and the attendance of each committee member is as follows:–

Name of Remuneration Committee Members	Attendance
Executive Directors	
Mr. Sun Kin Ho Steven [(1)]	4/4
Mr. He Jiafu [(2)]	0/1
Mr. Fung Chiu Chak, Victor	5/7
Mr. Huang Qijun [(3)]	0/3
Mr. MU Xianyi [(4)]	3/6
Independent Non-executive Directors	
Mr. Tse Man Bun *(Chairman of the Remuneration Committee)*	7/7
Mr. Fan Chor Ho	7/7
Mr. Lung Chee Ming, George [(5)]	2/2
Mr. Li Kit Chee	7/7
Mr. Leung Kai Cheung [(6)]	5/5

Notes:

1. Appointment effective from 3 August 2018
2. Appointment effective from 9 November 2018
3. Resignation effective from 3 August 2018
4. Resignation effective from 9 November 2018
5. Appointment effective from 26 October 2018
6. Resignation effective from 26 October 2018

Corporate Governance Report

(H) Board Committees *(Cont'd)*

Remuneration Committee *(Cont'd)*

During the year, the Remuneration Committee has made recommendation to the Board on the remuneration packages and discretionary bonuses of the Executive Directors, the Non-executive Directors and Senior Management for the Board's consideration. Such packages include benefits in kind, pension rights (or its equivalent, where appropriate) and compensation payments, including any compensation payable for loss or termination of their office or appointment, as the case may be.

Pursuant to code provision B.1.5 of the CG Code, details of the annual remuneration of the members of the Senior Management by band for the financial year ended 31 December 2018 is as follows:–

	Number of employees
HK$1,000,001 to HK$3,000,000	3
HK$3,000,001 to HK$5,000,000	1
HK$5,000,001 to HK$7,000,000	2
HK$7,000,001 to HK$9,000,000	1
HK$9,000,001 to HK$11,000,000	–
HK$11,000,001 to HK$13,000,000	2
	9

Notes:

1. A member of the Senior Management, Mr. Fan Ning, resigned as Vice President of Operations of the Group with effect from 1 April 2018.

2. A member of the Senior Management, Mr. Zhang Ke, resigned as Chief Investment Officer (D) of the Group with effect from 1 May 2018.

3. A member of the Senior Management, Miss Mo Wai Ling, resigned as Deputy Financial Controller of the Group with effect from 10 August 2018.

Details of the remuneration of each Director for the financial year ended 31 December 2018 are set out in note 8 to the consolidated financial statements of the Group.

(H) Board Committees *(Cont'd)*

Nomination Committee

The Nomination Committee was established on 28 March 2012. Its terms of reference were adopted with reference to the CG Code effective on 30 June 2014 and they have been published on the Company's website and the Stock Exchange's website.

The Nomination Committee is responsible for, among other things, reviewing the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment and re-appointment of Board members as well as succession planning for Directors to the Board.

The Nomination Committee comprises six members. Mr. Sun Kin Ho Steven, Executive Director, is the Chairman and the other members are Mr. He Jiafu who is an Executive Director, Mr. Fan Chor Ho, Mr. Tse Man Bun, Mr. Lung Chee Ming, George, and Mr. Li Kit Chee who are Independent Non-executive Directors. The composition of the Nomination Committee complies with the requirements of chairmanship and independence of the Listing Rules.

During the financial year ended 31 December 2018, the Nomination Committee held three meetings and the attendance of each committee member is as follows:–

Name of Nomination Committee Members	**Attendance**
Executive Directors	
Mr. Sun Kin Ho Steven (1) *(Chairman of the Nomination Committee)*	2/2
Mr. He Jiafu (2)	–
Mr. Huang Qijun (3)	0/1
Mr. MU Xianyi (4)	1/3
Independent Non-executive Directors	
Mr. Fan Chor Ho	3/3
Mr. Tse Man Bun	3/3
Mr. Lung Chee Ming, George	3/3
Mr. Li Kit Chee	3/3

Notes:

1. Appointment effective from 3 August 2018

2. Appointment effective from 9 November 2018

3. Resignation effective from 3 August 2018

4. Resignation effective from 9 November 2018

Corporate Governance Report

(H) Board Committees *(Cont'd)*

Nomination Committee *(Cont'd)*

During the year, the Nomination Committee has conducted an annual review of the independence of all Independent Non-executive Directors and confirmed that all the Independent Non-executive Directors satisfied the independence criteria as set out in the Listing Rules, reviewed the proposed re-appointment of Directors and an Independent Non-executive Director, and the appointment of Non-executive Directors, and the Board diversity policy of the Company.

In order to maintain a diversity of perspectives among Board members, the Company adopted a Board diversity policy which stated that the Company considers a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, and length of service, in addition to factors based on the Group's business models and specific needs from time to time.

(I) External Auditor

The responsibilities of the external auditor with respect to the consolidated financial statements of the Group are set out in the "Independent Auditor's Report" on pages 51 to 56.

Details of the fees paid/payable to the Company's auditor, Ernst & Young, during the financial year ended 31 December 2018 are as follows:–

	HK$000
Annual auditing services	3,300
Other auditing services	93
Non-auditing services	2,694
	6,087

(J) Company Secretary

The Company Secretary supports the Board by ensuring good information flow within the Board and the Board policy and procedures are followed. The Company Secretary is primarily responsible for advising the Board through the Chairman, Co-Chairman on governance matters and facilitating induction and professional development of Directors. The Board will approve the selection and appointment and dismissal of the Company Secretary who reports to the Chairman and/or Co-Chairman and/or the Directors. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures, and all applicable law, rules and regulations are followed. The Company Secretary, Miss Wong Suk Han Kitty who is an employee of the Group, has duly complied with the relevant training requirement under the Listing Rules for the financial year ended 31 December 2018.

(K) Risk Management and Internal Control

The Board has overall responsibility to ensure that the Group maintains sound and effective controls to safeguard its assets and the Shareholders' investments.

During the year, the Group has complied with CG Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Internal Control System

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

Corporate Governance Report

(K) Risk Management and Internal Control *(Cont'd)*

Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

(1) is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately it is the subject of a decision;

(2) conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012;

(3) restricts the access of information to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;

(4) has included in the "Confidentiality of Information", a strict prohibition on the unauthorised use of confidential or inside information; and

(5) has established and implemented procedures for responding to external enquiries about the Group's affairs.

Internal Audit Function

The Board engaged an independent third party, SHINEWING Risk Services Limited ("Shinewing"), to provide internal audit function for the financial year ended 31 December 2018, so as to improve the internal control systems of the Company and strengthen the management's effective control over the operations of the Company. The internal audit function is independent of the Group's daily operation and Shinewing carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An internal plan has been approved by the Board. According to the established plan, review of the risk management and internal control systems is conducted annually and the results have been reported by the Audit Committee to the Board.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring the effectiveness of these systems has been reviewed annually. Several areas have been considered during the Board's reviews, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Audit Committee conducted an annual review of the effectiveness of the internal control system of the Group covering the financial, operational and compliance controls and risk management functions. The Board, through its review made by internal audit function and audit committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

(L) Corporate Governance Functions

The Board established the "Corporate Governance Policy" on 28 March 2012. The Board is responsible for performing the corporate governance functions set out in the terms of reference below:–

(1) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(2) to review and monitor the training and continuous professional development of Directors and Senior Management;

(3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees of the Group; and

(5) to review the Company's compliance with the Corporate Governance Code set out in compliance with the Code and disclosure in the Corporate Governance Report to be issued by the Company.

(M) Communication with Shareholders

The Company maintains a high level of transparency in communicating with Shareholders. In order to maintain an on-going dialogue with Shareholders and institutional investors of the Company, the Company established a Shareholders' Communication Policy on 28 March 2012 and will review it on a regular basis to ensure effective and timely dissemination of information to Shareholders and encourage their participation at general meetings of the Company. The Shareholders' Communication Policy is set out below:–

(1) Shareholders may refer to information disclosed publicly or send their enquiries to the Company's registered office or its principal place of business for the time being, for the attention of the Company Secretary. For enquiries on their shareholdings, Shareholders should direct their questions about their shareholdings to the Company's Hong Kong Branch Registrar, Tricor Tengis Limited.

(2) Shareholders may access the Company's information from its annual reports, interim reports, announcements, circulars and notices of meetings. This information and documents are available on the Company's website and published on the Stock Exchange's website. The annual reports, interim reports, circulars, and notices of general meetings (where appropriate, with proxy form) of the Company are also despatched to Shareholders.

(3) Shareholders are encouraged to attend the annual general meeting and general meetings of the Company. Shareholders may also express their views, discuss the progress of the Company and understand the operations of the Company through the annual general meeting of the Company.

(4) The Company will review this Policy regularly to ensure its effectiveness.

(5) Enquiries and questions on the procedures for convening or putting forward proposals may be put to the Board by contacting either the Company Secretary through the Company's general line at (852) 2882 3632, e-mail at info@hkicimgroup.com, directly by questions at an annual general meeting or special general meeting of the Company or by post to the Company's registered office or its principal place of business for the time being.

The Company has ensured that each substantially separate issue will be dealt with at general meetings by way of a separate resolution. Shareholders are informed of the procedure and their rights to demand a poll. The Company will ensure compliance with the requirements about voting by poll contained in the Listing Rules and the Bye-laws. The procedures for voting by poll are set out in the Company's circular relating to the general meeting and will be explained during the meeting before voting on the resolutions.

Corporate Governance Report

(N) Shareholders' Rights

Since the Shareholders may convene a special general meeting and make any proposals such as propose a person other than an existing Director for election as a Director at such meeting, the detailed procedures of convening a special general meeting and making any proposals are set out in a document entitled "Shareholders' rights to put forward a proposal at a general meeting" which has been published in the Company's website and set out below:–

(1) According to Bye-law 58 of the Bye-laws, a Shareholder holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting ("SGM") to be called by the Board for the transaction or any business specified in such requisition.

(2) The written request must state the objects of the meeting, signed by the Shareholders concerned and may consist of several documents in like form, each signed by one or more of those requisitionists ("Requisitionists").

(3) The request by the Requisitionists will be verified with the Company's Share Registrars and upon their confirmation that the request by the Requisitionists is proper and in order, the Company Secretary will request the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements and in compliance with the Listing Rules on the Stock Exchange to all the registered Shareholders. On the contrary, if the request by the Requisitionists has been verified as not in order, the Requisitionists will be advised of this outcome and accordingly, a SGM will not be convened as requested.

(4) If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may convene the meeting themselves in accordance with Section 74(3) of the Companies Act 1981 of Bermuda, as amended from time to time.

(5) If a Shareholder wishes to put forward proposals at an SGM ("Proposals"), he can deposit a written notice to that effect at the principal place of business or the office of the Company's branch share registrar, for the attention of the Company Secretary. The request by the Requisitionists will be verified as stated above.

(6) The notice period to be given to all the registered Shareholders for consideration of a proposal raised by the Shareholders concerned at a SGM varies according to the nature of the proposal as follows:–

    o the longer of 14 clear days' and 10 business days' notice in writing if the proposal constitutes an ordinary resolution of the Company; and

    o 21 clear days' notice in writing if the proposal constitutes a special resolution of the Company.

    Whether a proposal will be put to a general meeting will be decided by the Board in its discretion, unless the proposal put forward by a Shareholder is (i) pursuant to a requisition by a Shareholder to convene a SGM or (ii) forms part of ordinary business to be considered at an annual general meeting as described in Bye-law 61(1) of the Bye-laws.

(7) Enquiries may be put to the Board by contacting either the Company Secretary through our general line at (852) 2882 3632, e-mail at info@hkicimgroup.com, directly by questions at an annual general meeting or SGM or by post to the registered office of the Company or head office and the principal place of business of the Company.

(O) Investor Relations

A copy of the constitutional documents of the Company has been published at the Company's website and the Stock Exchange's website. During the year, the Bye-laws was revised and adopted on 23 May 2018.

Report of the Directors

The board of directors of the Company ("Director(s)") herein present their report and the audited financial statements of the Group for the year ended 31 December 2018.

Principal Activities and Business Review

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries and associate are set out in notes 1 and 16 to the financial statements, respectively.

There were no significant changes in the nature of the Group's principal activities during the year.

Details of the business review information are set out in the section headed "Chairman's Statement" on pages 2 to 6 of this annual report.

Environmental Policies and Performance

The Group recognises environmental protection is of vital importance to the long term development of the Group. In order to minimise the environmental impact, the Group will continue to review and improve the effectiveness of its management practices from time to time.

"Environmental, Social and Governance Report" will be published by the end of June 2019. For details, please refer to the Company's website.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and the People's Republic of China (the "PRC") while the Company itself was incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The Group has allocated resources to ensure its operations are in compliance with relevant laws and regulations in Hong Kong, Bermuda, the PRC and Macau.

As far as the Board and management are aware of, the Group has complied, in all material respects, with the relevant laws and regulations which have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance of the applicable laws and regulations by the Group.

Risks and Uncertainties

Principal risks and uncertainties that the Company may face have been disclosed in the section headed "Chairman's Statement" on pages 2 to 6 of this annual report. In addition, details of the Group's financial risk management are disclosed in note 45 to the financial statements of this annual report.

Report of the Directors

Relationships with Employees, Customers and Suppliers

The Directors are of view that maintaining a good working relationship with its employees, customers and suppliers are the keys to the sustainable development of the Group. During the year, there was no significant dispute between the Group and its employees, customers and suppliers.

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 57 to 167.

The Directors has resolved not to recommend any final dividend in respect of the year ended 31 December 2018.

Summary financial information

The following table summarises the consolidated results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements. The summary does not form part of the audited financial statements.

	Year ended 31 December 2018 *HK$'000*	Year ended 31 December 2017 *HK$'000*	Period from 1 April 2016 to 31 December 2016 *HK$'000*	Year ended 31 March 2016 *HK$'000*	Year ended 31 March 2015 *HK$'000*
Profit attributable to ordinary equity holders of the Company	**360,908**	6,004	134,050	396,874	399,394
Total assets	**17,318,471**	19,769,192	5,526,957	5,608,055	5,567,868
Total liabilities	**5,155,808**	7,551,191	2,567,227	2,830,863	2,635,299
Equity attributable to ordinary equity holders of the Company	**12,162,665**	12,217,991	2,949,371	2,688,403	2,742,074
Non-controlling interests	**(2)**	10	10,359	88,789	190,495
	17,318,471	19,769,192	5,526,957	5,608,055	5,567,868

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 32 and 33 to the financial statements.

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 of the Company.

Purchase, Redemption or Sale of Listed Securities of the Company

During the year, the Company repurchased certain of its shares on the Hong Kong Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of those transactions are as follows:

Month	Number of shares repurchased	Price per share Highest	Price per share Lowest	Total price paid
		HK$	*HK$*	*HK$'000*
July 2018	926,000	1.81	1.67	1,639
August 2018	9,864,000	1.50	1.47	14,785
September 2018	28,072,000	1.51	1.43	41,591
Total	38,862,000			58,015

The purchase of the Company's shares during the year was effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Distributable Reserves

At the end of the reporting period, the Company's reserves available for distribution, calculated in accordance with the Bermuda Companies Act 1981, amounted to HK$438,673,000.

Major Customers and Suppliers

During the year under review, sales to the Group's five largest customers accounted for 57% of the total sales for the year and sales to the largest customer included therein amounted to 19%. Purchases from the Group's five largest suppliers accounted for 50% of the total purchases for the year.

None of the Directors or any of their close associates or any 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 five largest customers.

Report of the Directors

Directors

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

Executive Directors:

Mr. Chen Chao	(appointed on 26 October 2018)
Mr. Sun Kin Ho Steven	(appointed on 3 August 2018)
Mr. He Jiafu	(appointed on 3 August 2018)
Mr. Fung Chiu Chak, Victor	
Mr. Liu Junchun	
Mr. Huang Qijun	
Mr. Guo Ke	(appointed on 24 August 2018)
Mr. Zhang Peihua	(appointed on 9 November 2018)
Mr. Mung Kin Keung	(appointed on 1 February 2018 and resigned on 3 August 2018)
Mr. Mung Hon Ting Jackie	(resigned on 3 August 2018)
Mr. Li Xiaoming	(resigned on 24 August 2018)
Mr. Wong Tai Lun Kenneth	(resigned on 26 October 2018)
Mr. Mu Xianyi	(resigned on 9 November 2018)

Non-Executive Directors:

Mr. Tang King Shing	
Mr. Yang Han Hsiang	(appointed on 24 August 2018)
Mr. Tang Kit	(resigned on 24 August 2018)

Independent Non-Executive Directors:

Mr. Fan Chor Ho	
Mr. Tse Man Bun	
Mr. Lung Chee Ming, George	
Mr. Li Kit Chee	
Mr. Chong Kin Ho	(appointed on 21 January 2019)
Mr. Leung Kai Cheung	(resigned on 26 October 2018)

In accordance with the Company's Bye-laws, the Directors who will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Fan Chor Ho, Mr. Tse Man Bun, Mr. Lung Chee Ming, George, Mr. Li Kit Chee and Mr. Chong Kin Ho and as at the date of this report still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 7 to 12 of the annual report.

Directors' Service Contracts

No Director to be proposed for re-election at the forthcoming annual general meeting will have a service contract with the Company which requires the Company, in order to terminate such contract, to give a period of notice of more than one year or to pay compensation or make other payments equivalent to more than one year's emoluments.

Permitted Indemnity Provision

Pursuant to the Bye-laws of the Company and subject to the relevant provisions therein, the Directors, the company secretary of the Company and other officers acting in relation to the affairs of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she shall or may incur or sustain by or by reason of any act done about the execution of the duties of their respective offices.

The Company has arranged appropriate insurance cover for the Directors, the company secretary of the Company and other officers in respect of legal actions against one or more of them in the course of execution of their respective duties in good faith during the year.

Directors' Interests in Transactions, Arrangements or Contracts

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding companies of the Company or any of the Company's subsidiaries was a party during the year.

Directors' and Chief Executive's Interests and Long Positions in Shares and Underlying Shares

At 31 December 2018, the interests and short positions of the Directors and chief executive ("Chief Executive") in the share capital and underlying shares and debentures of the Company or 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Position in Share Options of the Company

Name of directors	Number of options directly beneficially owned
Sun Kin Ho Steven	33,630,000
He Jiafu	15,000,000
Fung Chiu Chak, Victor	20,000,000
Liu Junchun	20,000,000
Huang Qijun	34,000,000
Guo Ke	15,000,000
Tang King Shing	8,000,000
Yang Han Hsiang	8,000,000
Fan Chor Ho	3,400,000
Tse Man Bun	3,400,000
Lung Chee Ming, George	3,400,000
Li Kit Chee	3,400,000
	167,230,000

Report of the Directors

Directors' and Chief Executive's Interests and Long Positions in Shares and Underlying Shares *(Cont'd)*

Save as disclosed above, as at 31 December 2018, none of the Directors or Chief Executive 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 Hong Kong Stock Exchange Limited pursuant to the Model Code.

Directors' and Chief Executive's Rights to Acquire Shares or Debentures

Apart from those disclosed under the heading "Directors' and Chief Executive's interests and long positions in shares and underlying shares" above and in the section headed "Share Options Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children or Chief Executive 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 to acquire such rights in any other body corporate.

Equity-Linked Arrangements

Share Option Scheme

The Company operates share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to a success of the Group's operations. On 8 August 2012, the Company adopted a share option scheme (the "Share Option Scheme"). Further details of the Share Option Scheme are disclosed in note 33 to the financial statements.

On 19 January 2018, 309,500,000 share options of the Company ("Share Options") were granted but cancelled on 26 January 2018. On 22 March 2018, the shareholders of the Company (the "Shareholders") approved the option scheme mandate limit (the "Option Scheme Mandate Limit") at the special general meeting (the "SGM"). Based on 3,402,497,709 shares of the Company ("Shares") in issue as at the date of the SGM, the Company was authorised to issue options to subscribe for a total of 340,249,770 Shares, representing 10% of the total number of Shares in issue as at the date of the passing of the resolution to refresh the Option Scheme Mandate Limit.

On 20 July 2018, the Company granted share options ("Share Options") to certain eligible individuals to subscribe for up to a total of 308,900,000 Shares of the Company at an exercise price of HK$1.75 per Share under the Share Option Scheme. On 18 October 2018, the Company also granted share options to certain eligible individuals for up to a total of 76,930,000 Shares of the Company at an exercise price of HK$1.90 per Share under the Share Option Scheme.

Equity-Linked Arrangements *(Cont'd)*

Share Option Scheme *(Cont'd)*

The following table discloses the movements in the Share Options outstanding during the year:

Name or category of participant	Number of share options: At 1 January 2018	Granted during the year**	Exercised during the year**	Exercised but shares not yet allotted during the year**	Lapsed during the year	At 31 December 2018	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK$ per share
Directors									
Fung Chiu Chak, Victor	–	20,000,000	–	–	–	20,000,000	20-7-2018	20-7-2018 to 19-7-2028[1]	1.75
Liu Junchun	–	20,000,000	–	–	–	20,000,000	20-7-2018	20-7-2018 to 19-7-2028[1]	1.75
Huang Qijun	–	34,000,000	–	–	–	34,000,000	20-7-2018	20-7-2018 to 19-7-2028[1]	1.75
Tang King Shing	–	8,000,000	–	–	–	8,000,000	20-7-2018	20-7-2018 to 19-7-2028[1]	1.75
Fan Chor Ho	–	3,400,000	–	–	–	3,400,000	20-7-2018	20-7-2018 to 19-7-2028[1]	1.75
Tse Man Bun	–	3,400,000	–	–	–	3,400,000	20-7-2018	20-7-2018 to 19-7-2028[1]	1.75
Lung Chee Ming, George	–	3,400,000	–	–	–	3,400,000	20-7-2018	20-7-2018 to 19-7-2028[1]	1.75
Li Kit Chee	–	3,400,000	–	–	–	3,400,000	20-7-2018	20-7-2018 to 19-7-2028[1]	1.75
Sun Kin Ho Steven	–	33,630,000	–	–	–	33,630,000	18-10-2018	18-10-2018 to 17-10-2028[2]	1.90
He Jiafu	–	15,000,000	–	–	–	15,000,000	18-10-2018	18-10-2018 to 17-10-2028[2]	1.90
Guo Ke	–	15,000,000	–	–	–	15,000,000	18-10-2018	18-10-2018 to 17-10-2028[2]	1.90
Yang Han Hsiang	–	8,000,000	–	–	–	8,000,000	18-10-2018	18-10-2018 to 17-10-2028[2]	1.90

Report of the Directors

Equity-Linked Arrangements *(Cont'd)*

Share Option Scheme *(Cont'd)*

The following table discloses the movements in the Share Options outstanding during the year: *(Cont'd)*

Name or category of participant	At 1 January 2018	Granted during the year**	Exercised during the year**	Exercised but shares not yet allotted during the year**	Lapsed during the year	At 31 December 2018	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK$ per share
	Number of share options								
Past directors									
Mu Xianyi	–	20,000,000	–	–	–	20,000,000	20-7-2018	20-7-2018 to 19-7-2028(1)	1.75
Wong Tai Lun Kenneth	–	15,000,000	–	–	–	15,000,000	20-7-2018	20-7-2018 to 19-7-2028(1)	1.75
Mung Kin Keung	–	20,000,000	–	–	(20,000,000)	–	20-7-2018	–	1.75
Mung Hon Ting Jackie	–	15,000,000	–	–	(15,000,000)	–	20-7-2018	–	1.75
Li Xiaoming	–	15,000,000	–	–	(15,000,000)	–	20-7-2018	–	1.75
Tang Kit	–	8,000,000	–	–	(8,000,000)	–	20-7-2018	–	1.75
Leung Kai Cheung	–	3,400,000	–	–	(1,700,000)	1,700,000	20-7-2018	20-7-2018 to 25-10-2019(3)	1.75
33 individuals									
In aggregate	–	116,900,000	(1,200,000)	(1,200,000)(4)	(7,600,000)	106,900,000	20-7-2018	20-7-2018 to 19-7-2028(5)	1.75
3 individuals									
In aggregate	–	5,300,000	–	–	–	5,300,000	18-10-2018	18-10-2018 to 17-10-2028(6)	1.90
	–	385,830,000	(1,200,000)	(1,200,000)	(67,300,000)	316,130,000			

Equity-Linked Arrangements *(Cont'd)*

Share Option Scheme *(Cont'd)*

Notes to the table of Share Options during the year:

(1) Each Grantee is allowed to exercise up to 50% of the Share Options granted from the date of grant up to and including 19 July 2028. Thereafter, each Grantee is allowed to exercise the remaining 50% of the Share Options from 1 January 2019 up to and including 19 July 2028.

(2) Each Grantee is allowed to exercise up to 50% of the Share Options granted from the date of grant up to and including 17 October 2028. Thereafter, each Grantee is allowed to exercise the remaining 50% of the Share Options from 1 January 2019 up to and including 17 October 2028.

(3) Mr. Leung Kai Cheung resigned as the independent non-executive director on 26 October 2018. He is allowed to exercise up to 50% of the Share Options granted from the date of grant up to and within 12 months after his resignation, 25 October 2019. The remaining 50% of the Share Options were lapsed from the date of his resignation.

(4) In December 2018, a Grantee exercised share options to subscribe for 1,200,000 Shares which issued in January 2019.

(5) Each Grantee is allowed to exercise up to 30% of the Share Options granted from the date of grant up to and including 19 July 2028. Thereafter, each Grantee is allowed to exercise a further 30% of the Share Options granted from 1 January 2019 up to and including 19 July 2028 and to exercise the remaining 40% of Share Options from 1 January 2020 up to and including 19 July 2028.

(6) Each Grantee is allowed to exercise up to 30% of the Share Options granted from the date of grant up to and including 17 October 2028. Thereafter, each Grantee is allowed to exercise a further 30% of the Share Options granted from 1 January 2019 up to and including 17 October 2028 and to exercise the remaining 40% of Share Options from 1 January 2020 up to and including 17 October 2028.

* The exercise price of the Share Options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The weighted average closing price of the Company's shares immediately before the exercise date of the Share Options was HK$2.42 per share. The closing prices of the Company's shares immediately before the respective dates on which the options were granted during the year (i.e. 20 July 2018 and 18 October 2018) were HK$1.72 per share and HK$1.81 per share respectively.

Save for the above, at no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or Chief Executive 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 to acquire such rights in any other body corporate under the Share Option Scheme.

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares

At the end of the reporting period, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions and short positions in shares:

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Hainan Cihang Charity Foundation, Inc.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Pan-American Aviation Holding Company[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Tang Dynasty Development Co. Limited[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Hainan Province Cihang Foundation[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Sheng Tang Development (Yangpu) Co. Ltd.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Hainan Traffic Administration Holding Co., Ltd.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Group Co., Ltd.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Holding Group Co., Ltd.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Hainan HNA Holding Co., Ltd.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Investment Holding Co., Ltd.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43

Substantial Shareholders' Interests in Shares and Underlying Shares *(Cont'd)*

Long positions and short positions in shares: *(Cont'd)*

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Beijing HNA Financial Holdings Co., Ltd.(1)	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Financial Holdings International Co., Ltd.(1)	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
Hong Kong HNA Holding Group Co. Limited(1)	Interest of controlled corporation	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
HNA Finance I Co., Ltd.	Beneficial owner	2,350,804,131 (L)	69.86
	Other interests	1,394,214,012 (S)	41.43
PAG Holdings Limited(2)	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Pacific Alliance Group Limited(2)	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Pacific Alliance Investment Management Limited(2)	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Pacific Alliance Group Asset Management Limited(2)	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Pacific Alliance Asia Opportunity Fund L.P.(2)	Interest of controlled corporation	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
PA Glamorous Opportunity X Limited	Beneficial owner	1,394,214,012 (L)	41.43
	Other interests	1,394,359,960 (L)	41.44
Central Huijin Investment Limited(3)	Security interest in shares	662,000,000 (L)	19.67
China Construction Bank Corporation	Security interest in shares	662,000,000 (L)	19.67
中國交通建設股份有限公司	Beneficial owner	171,000,000 (L)	5.08

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares *(Cont'd)*

Long positions and short positions in shares: *(Cont'd)*

Notes:

1. These parties were deemed to have interests in long positions in 2,350,804,131 shares and short positions in 1,394,214,012 shares under the SFO by virtue of their equity interests in HNA Finance I Co., Ltd.

2. These parties were deemed to be total interested in long positions in 2,788,573,972 shares under the SFO by virtue of their equity interest in PA Glamorous Opportunity X Limited.

3. This party was deemed to be interested in long position in 662,000,000 shares under the SFO by virtue of its equity interest in China Construction Bank Corporation which had a security interest over 662,000,000 shares.

Apart from the foregoing, as at 31 December 2018, no person, other than the Directors and Chief Executive, whose interests are set out in the section headed "Directors' and Chief Executive's interests and long positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Subsequent to the end of the reporting period and the date of this report, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions and short positions in shares:

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Hainan Cihang Charity Foundation, Inc.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Pan-American Aviation Holding Company[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Tang Dynasty Development Co. Limited[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Hainan Province Cihang Foundation[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Sheng Tang Development (Yangpu) Co. Ltd.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Hainan Traffic Administration Holding Co., Ltd.[(1)]	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares *(Cont'd)*

Long positions and short positions in shares: *(Cont'd)*

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
HNA Group Co., Ltd.(1)	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
HNA Holding Group Co., Ltd.(1)	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Hainan HNA Holding Co., Ltd.(1)	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
HNA Investment Holding Co., Ltd.(1)	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Beijing HNA Financial Holdings Co., Ltd.(1)	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
HNA Financial Holdings International Co., Ltd.(1)	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
Hong Kong HNA Holding Group Co. Limited(1)	Interest of controlled corporation	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
HNA Finance I Co., Ltd.	Beneficial owner	2,350,804,131 (L)	69.84
	Other interests	1,394,214,012 (S)	41.42
PAG Holdings Limited(2)	Interest of controlled corporation	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42
Pacific Alliance Group Limited(2)	Interest of controlled corporation	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42
Pacific Alliance Investment Management Limited(2)	Interest of controlled corporation	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42

Report of the Directors

Substantial Shareholders' Interests in Shares and Underlying Shares *(Cont'd)*

Long positions and short positions in shares: *(Cont'd)*

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Pacific Alliance Group Asset Management Limited[(2)]	Interest of controlled corporation	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42
Pacific Alliance Asia Opportunity Fund L.P.[(2)]	Interest of controlled corporation	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42
PA Glamorous Opportunity X Limited	Beneficial owner	1,394,214,012 (L)	41.42
	Other interests	1,394,359,960 (L)	41.42
中國交通建設股份有限公司	Beneficial owner	171,000,000 (L)	5.08
Blackstone Group Management L.L.C.[(3)]	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV GP L.P.[(3)]	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV GP Limited Partner L.L.C.[(3)]	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV GP Management (Delaware) L.P.[(3)]	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV GP Management L.L.C.[(3)]	Interest of controlled corporation	2,405,734,062(L)	71.47
Blackstone Holdings IV L.P.[(3)]	Interest of controlled corporation	2,405,734,062(L)	71.47
SCHWARZMAN Stephen A.[(3)]	Interest of controlled corporation	2,405,734,062(L)	71.47
The Blackstone Group L.P.[(3)]	Interest of controlled corporation	2,405,734,062(L)	71.47

Substantial Shareholders' Interests in Shares and Underlying Shares *(Cont'd)*

Long positions and short positions in shares: *(Cont'd)*

Name	Capacity	Number of shares held (Long positions ("L")/ Short positions ("S"))	Percentage of the Company's issued share capital
Blackstone Real Estate Associates Asia II L.P.(4)	Interest of controlled corporation	2,340,904,131(L)	69.54
Blackstone Real Estate Partners Asia II L.P.(4)	Interest of controlled corporation	2,340,904,131(L)	69.54
BREP Asia II Holdings I (NQ) L.P.(4)	Interest of controlled corporation	2,340,904,131(L)	69.54
BREP Asia II Holdings I (NQ) Pte. Ltd.(4)	Interest of controlled corporation	2,340,904,131(L)	69.54
BREP Asia II L.L.C.(4)	Interest of controlled corporation	2,340,904,131(L)	69.54
BREP Asia II Ltd.(4)	Interest of controlled corporation	2,340,904,131(L)	69.54
Times Holdings I Limited(4)	Interest of controlled corporation	2,340,904,131(L)	69.54
Times Holdings II Limited	Beneficial owner	2,340,904,131(L)	69.54

Notes:

1. These parties were deemed to have interests in long positions in 2,350,804,131 shares and short positions in 1,394,214,012 shares under the SFO by virtue of their equity interests in HNA Finance I Co., Ltd.

2. These parties were deemed to be total interested in long positions in 2,788,573,972 shares under the SFO by virtue of their equity interest in PA Glamorous Opportunity X Limited.

3. These parties were deemed to have interests in long positions in 2,405,734,062 shares under the SFO by virtue of their equity interests in Tides Holdings II Ltd. and Times Holdings II Limited.

4. These parties were deemed to have interests in long positions in 2,340,904,131 shares under the SFO by virtue of their equity interests in Times Holdings II Limited.

Report of the Directors

Connected Transactions

(a) Non-Exempt Continuing Connected Transactions

2017 Master Agreement

On 6 July 2017, the Company (for itself and on behalf of other members of the Group) entered into a new master agreement (the "2017 Master Agreement") with Mr. Fung Chiu Chak, Victor ("Mr. Fung") (for himself and on behalf of companies owned or controlled by Mr. Fung, collectively "Fung Group") to regulate the business relationship and subcontracting of works among them (including their subsidiaries) for a term commencing from 6 July 2017 and ending on 31 December 2019, both days inclusive.

During the year ended 31 December 2018, the following subcontracting works were entered into amongst the companies mentioned above:

(i) Milway Development Limited ("Milway") and Top Genius Holdings Limited ("Top Genius") contracted building and construction works of approximately HK$3,963,000 and HK$1,952,000, respectively, to Tysan Building Construction Company Limited ("TBC"), a company controlled by Mr. Fung.

(ii) TBC subcontracted rental and engineering works relating to tower cranes of approximately HK$32,000 to Proficiency Engineering Limited ("PEN").

PEN is a wholly-owned subsidiary of the Company, while Top Genius and Milway were then wholly-owned subsidiaries of the Company when these parties entered into the contracting agreements. Mr. Fung is an executive director of the Company. As such, Mr. Fung and companies owned or controlled by Mr. Fung as to 30% or more are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. Thus, the transactions mentioned above constitute continuing connected transactions for the Company under the Listing Rules.

BIM Master Agreement

On 22 September 2017, the Company (for itself and for and on behalf of the subsidiaries of the Company) and Hainan Marine Construction Project Management Contracting Company Limited ("Hainan Marine Construction") (for itself and for and on behalf of its subsidiaries and companies controlled by its holding companies from time to time) entered into a master agreement (the "BIM Master Agreement") in relation to the provision of the preparation of building information model ("BIM"), running of the conflict tests and consultation on BIM related matters ("BIM Modelling Services") and a platform for managing, editing and searching BIM documents and BIM models ("BIM Platform") by members of HNA Group Co., Ltd. ("HNA Group") to members of the Group for a term commencing from 22 September 2017 and ending on 31 December 2022, both days inclusive.

During the year ended 31 December 2018, the following services were provided by Hainan Marine Construction to the Group:

(i) Provision of BIM Modelling Services to Milway amounted to approximately HK$58,000.

(ii) Provision of BIM Platform to Top Genius and Milway amounted to approximately HK$38,000 and HK$225,000, respectively.

Report of the Directors

Connected Transactions *(Cont'd)*

(a) Non-Exempt Continuing Connected Transactions *(Cont'd)*

BIM Master Agreement (Cont'd)

HNA Finance I Co., Ltd. ("HNA Finance I"), the then controlling shareholder of the Company, is a member of HNA Group. Hainan Marine Construction is a non-wholly-owned subsidiary of HNA Group and was therefore a connected person of the Company under Chapter 14A of the Listing Rules. Thus, the transactions mentioned above constituted continuing connected transactions for the Company under the Listing Rules.

Management Fee Income from the Funds

On 13 October 2017, Hisea International Co., Limited ("Hisea International"), Benefit Developments Limited ("BDL") (a wholly-owned subsidiary of the Company) and HKICIM (GP) II Limited ("HKICIM (GP) II") (a wholly-owned subsidiary of the Company) entered into the amended and restated exempted limited partnership agreement (the "Fund II Partnership Agreement") in relation to the formation of HKICIM Fund II, L.P. ("Fund II") and the subscription agreement in relation to the capital commitment of BDL to Fund II. Pursuant to the Fund II Partnership Agreement, HKICIM (GP) II, as a general partner of Fund II, is responsible for the day-to-day operation and management of Fund II, and will receive an annual management fee equal to 1% of the aggregate capital commitments of Fund II as at 31 December of each calendar year as compensation for managing affairs of Fund II. During the year, HKICIM (GP) II has recorded management fee income of HK$60,300,000 from Fund II.

On 30 November 2017, Hisea International, Benefit Developments III Limited ("BDL III") (a wholly-owned subsidiary of the Company) and HKICIM (GP) III Limited ("HKICIM (GP) III") (a wholly-owned subsidiary of the Company) entered into the amended and restated exempted limited partnership agreement (the "Fund III Partnership Agreement") in relation to the formation of HKICIM Fund III, L.P. ("Fund III") and the subscription agreement in relation to the capital commitment of BDL III to Fund III. Pursuant to the Fund III Partnership Agreement, HKICIM (GP) III, as a general partner of Fund III, is responsible for the day-to-day operation and management of Fund III, and will receive an annual management fee equal to 1% of the aggregate capital commitments of Fund III as at 31 December of each calendar year as compensation for managing affairs of Fund III. During the year, HKICIM (GP) III has recorded management fee income of approximately HK$37,166,000 from Fund III.

On 6 March 2018, HKICIM (GP) V Limited ("HKICIM (GP) V") (a wholly-owned subsidiary of the Company) and Hong Kong International Investment Group Co., Limited ("Hong Kong IIG") entered into the amended and restated exempted limited partnership agreement (the "Fund V Partnership Agreement") in relation to the formation of HKICIM Fund V, L.P. ("Fund V"). Pursuant to the Fund V Partnership Agreement, HKICIM (GP) V, as a general partner of Fund V, is responsible for the day-to-day operation and management of Fund V, and will receive an annual management fee equal to 2% of the committed fund size of Fund V as compensation for managing affairs of Fund V. During the year, HKICIM (GP) V has recorded management fee income of approximately HK$24,740,000 from Fund V.

Hisea International is a wholly-owned subsidiary of HNA Holding Group Co., Ltd. while Hong Kong IIG is a non-wholly-owned subsidiary of HNA Holding Group Co., Ltd., which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company. Accordingly, Fund II, Fund III and Fund V (collectively, the "Funds") are associates of HNA Finance I, and were therefore connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the receipt of management fees from the Funds, constituted continuing connected transactions of the Company respectively under Chapter 14A of the Listing Rules.

Report of the Directors

Connected Transactions *(Cont'd)*

(a) Non-Exempt Continuing Connected Transactions *(Cont'd)*

Pursuant to Rule 14A.40 of the Listing Rules, the independent non-executive directors have reviewed the above continuing connected transactions and confirmed that these continuing connected transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The amounts in respect of the continuing connected transactions mentioned above during the year under review have not exceeded the annual cap, where applicable, for the transactions.

In respect of the continuing connected transactions mentioned above, the Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year under review.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Review of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions* under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued the unqualified letter containing the findings and conclusions in respect of the continuing connected transactions during the year disclosed above by the Group (with a copy provided to the Hong Kong Stock Exchange) in accordance with Rule 14A.56 of the Listing Rules and confirmed that nothing has come to their attention that causes them to believe that the continuing connected transactions:

(1) have not been approved by the board of Directors;

(2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

(3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(4) have exceeded the cap disclosed in the respective circulars of the Company dated 15 August 2017 (in respect of the 2017 Master Agreement), 26 October 2017 (in respect of the BIM Master Agreement), 4 November 2017 (in respect of management fee income from Fund II) and 21 December 2017 (in respect of management fee income from Fund III), and the announcement dated 6 March 2018 (in respect of management fee income from Fund V).

Connected Transactions *(Cont'd)*

(b) Project Development Agreements for Kai Tak NKIL 6562 and 6565

On 6 July 2017, Gainful Engineering Limited ("Gainful"), a wholly-owned subsidiary of the Company, entered into a project development agreement (the "6562 Project Development Agreement") with Denco Properties Limited ("Denco") in relation to the development of the piece or parcel of ground registered in the Land Registry as New Kowloon Inland Lot No. 6562 together with the messuages erections and buildings thereon ("6562 Land Parcel"), and a project development agreement (the "6565 Project Development Agreement") with Hongkong Island Construction Properties Co., Limited ("HIC") in relation to the development of the piece or parcel of ground registered in the Land Registry as New Kowloon Inland Lot No. 6565 together with the messuages erections and buildings thereon ("6565 Land Parcel").

Pursuant to the project development agreements, Denco and HIC agreed to exclusively appoint Gainful as their respective sole agents to develop the 6562 Land Parcel and the 6565 Land Parcel respectively, and Gainful will receive an amount equal to 5% of the project costs incurred up to the end of the twelve months after practical completion of the development as remuneration.

Prior to the completion of disposal of the holding companies of Denco and HIC on 14 February 2018, Denco and HIC were both non-wholly-owned subsidiaries of HNA Group, which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company. Denco and HIC being then associates of HNA Finance I were therefore connected persons of the Company under Chapter 14A of the Listing Rules. Thus, the transactions mentioned above constituted connected transactions for the Company under the Listing Rules.

From 1 January 2018 to 14 February 2018, Gainful has recorded project development income amounted to approximately HK$5,518,000 and HK$4,910,000 from Denco and HIC, respectively.

(c) Disposals of Subsidiaries and an Associate

On 13 November 2017, Great Regent Investments Limited, Shanghai Changning Duncan Property Consulting Company Limited ("Shanghai Changning Duncan"), Red Shine Investment Limited and Carriway Limited (collectively, the "Shanghai Sellers"), each being a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Hainan HNA Shou Fu Investment Co., Ltd. ("HNA Shou Fu"), a company established in the PRC with limited liability and a subsidiary of HNA Group, for disposal of the Shanghai Sellers' entire equity interests in Tysan Land (Shanghai) Limited at a cash consideration of RMB585.8 million (the "Shanghai Disposal"). The Shanghai Disposal was completed on 30 April 2018.

On 13 November 2017, Great Prosper Limited (the "Tianjin Seller"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with HNA Shou Fu for disposal of Tianjin Seller's entire equity interest in Tysan Property Development (Tianjin) Co. Ltd. at a cash consideration of RMB435.8 million (the "Tianjin Disposal"). The Tianjin Disposal was completed on 30 April 2018.

On 14 December 2018, Tysan Investment Limited, a wholly-owned subsidiary of the Company, completed the disposal of its entire equity interests in Upwealth International Limited and Fortune Fortress Limited and assigned all amounts which Upwealth International Limited and Fortune Fortress Limited owing to Tysan Investment Limited to Mr. Fung as at that date.

On 14 December 2018, Tysan Investment Limited also completed the disposal of its 50% equity interest in Turbo Dragon Investment Limited and assigned the shareholder's loan owing by Turbo Dragon Investment Limited to Tysan Investment Limited to Mr. Fung on the same date.

Further details of the disposals are included in notes 16, 42(a) and 42(d) to the financial statements.

HNA Shou Fu is a subsidiary of HNA Group, which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company. Accordingly, HNA Shou Fu was then a connected person of the Company. Mr. Fung, as an executive director of the Company, is a connected person of the Company under Rule 14A.07 of the Listing Rules. Thus, the disposals constitute connected transactions for the Company under the Listing Rules.

Report of the Directors

Connected Transactions *(Cont'd)*

(d) Investment in a Fund

On 6 June 2018, Shanghai Changning Duncan entered into a partnership agreement with Haikou Xincheng District Equity Investment Fund Management Co., Ltd. ("Haikou Xincheng") to invest in Henqin Zhonghang Equity Investment Fund Partnership (Limited Partnership) (the "Fund"), a limited partnership established in the PRC. Pursuant to the partnership agreement, Shanghai Changning Duncan will contribute RMB300,000,000 (equivalent to HK$367,700,000) in cash to the Fund as a limited partner and Haikou Xincheng (as a general partner) will continue to look for potential investors to invest in the Fund as limited partners. The main purpose of the Fund is to participate in a tender to acquire 38.73% interest in Hainan Railway Company Limited which mainly engages in the operation and management of Roundabout High Speed Railway in Hainan province. During the year, the Group has prepaid HK$367,700,000 for the capital contribution. As the fund is still in the process of setting up, such amount was recorded as a prepayment in the consolidated financial statements as at 31 December 2018.

Each of Haikou Xincheng and HNA Holding Group Co., Ltd. (being an initial limited partner) is a subsidiary of HNA Group, which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company. Accordingly, each of Haikou Xincheng and HNA Holding Group Co., Ltd was then a connected person of the Company and the formation of the partnership with Haikou Xincheng and HNA Holding Group Co., Ltd. and the transactions contemplated under the partnership agreement constituted a connected transaction of the Group.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.

Events after the reporting period

Details of the significant events of the Group after the reporting period are set out in note 46 to the financial statements.

Auditor

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

BY ORDER OF THE BOARD

Sun Kin Ho Steven
Co-chairman

Hong Kong
29 March 2019

Independent Auditor's Report

EY 安永

To the shareholders of Hong Kong International Construction Investment Management Group Co., Limited
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Hong Kong International Construction Investment Management Group Co., Limited (the "Company") and its subsidiaries (the "Group") set out on pages 57 to 167, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, 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 year. 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.

Independent Auditor's Report

Key Audit Matters *(Cont'd)*

Key Audit Matter

Net realisable value of properties under development

As at 31 December 2018, the Group had properties under development for sale located in Hong Kong of HK$7,476 million. The Group has written down the properties under development by HK$453 million during the year.

The properties under development are stated at the lower of cost and net realisable value. Significant judgement and estimates from management is involved in estimating the future selling price and the necessary costs to complete the sales of these properties, and is assessed by management with reference to an independent valuation carried out by an external property valuer.

The accounting policies, accounting judgements and estimates and disclosures for the properties under development are included in notes 2.4, 3 and 17 to the financial statements.

How Our Audit Addressed the Key Audit Matter

Our procedures included reviewing management's valuation assessments and the external valuation report prepared by the external property valuer engaged by the Group and on which the management's assessment of the net realisable value of the properties under development was based. We assessed the qualifications, experience and expertise of the external property valuer. With the assistance of our internal property valuation specialists, we discussed with management and the external property valuer their valuation methodologies and assessed the key estimates and assumptions adopted in the valuation, including expected future selling prices and costs to completion, by comparing expected future selling prices to recently transacted prices for similar properties or the prices of comparable properties located in the vicinity of the development, and cost information for properties of similar nature and location by utilising the industry knowledge and experience of our internal property valuation specialists.

Key Audit Matters *(Cont'd)*

Key Audit Matter *(Cont'd)*

Revenue recognition contributed from construction works

During the year ended 31 December 2018, the Group has recognised construction revenue from the foundation piling and site investigation works of HK$2,531 million. Such revenue was recognised over time using an input method – based on progress towards complete satisfaction of the construction services which involves significant management judgement and estimation. The contract revenue was estimated by management based on contract sum and work values from variation orders, taking into account the financial impact of scope changes, claims, disputes and negotiation with employers. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.

When determining the total budgeted costs, significant estimation is required and management makes reference to information such as (i) current or recent offers from subcontractors and suppliers, (ii) variation orders received from customers, and (iii) estimation on project material costs, labour costs and other costs for the completion of the projects provided by the quantity survey department.

The accounting policies, accounting judgements and estimates and disclosures for the recognition of revenue from the foundation piling and site investigation work are included in notes 2.4, 3 and 5 to the financial statements.

How Our Audit Addressed the Key Audit Matter *(Cont'd)*

Our procedures included performing analysis of revenue, gross profit trend and their fluctuations, and the cost structure of construction contracts. We checked contract revenue, on a sample basis, to amounts stated in contracts, variation orders and instructions from architects and final accounts agreed with customers. We compared budgeted costs prepared by the quantity survey department to accounting records of selected contracts and source documents, e.g., quotations and payment certificates from subcontractors, correspondence with customers, architects and subcontractors. We also checked the budgeted costs by comparing with costs incurred by other similar projects, taking into account the historical accuracy of prior year budgets prepared by management. In addition, we also checked payment records to subcontractors, worker payroll records and other supporting documents, e.g. final accounts with subcontractors, cost allocation schedules prepared by management for the selected construction projects.

Independent Auditor's Report

Key Audit Matters *(Cont'd)*

Key Audit Matter *(Cont'd)*

Valuation of convertible bonds

As at 31 December 2018, the Group had convertible bonds of a fair value of HK$834 million.

The 3-year convertible bonds were subscribed by the Group during the year with a principal amount of HK$800 million and bear interest at 8% per annum.

Significant judgement and estimates from management are involved in estimating the fair value of the convertible bonds, and are assessed by management with reference to an independent valuation carried out by an external valuer.

Key assumptions, such as risk-free rate and probability of potential investment of the issuer, were taken into account of the calculation of the fair value of convertible bonds and the selection of comparable companies and market multiples, with the adjustment of marketability discount, were involved.

The significant judgement and estimates and disclosures for valuation of convertible bonds are included in notes 3, 24 and 44 to the consolidated financial statements.

How Our Audit Addressed the Key Audit Matter *(Cont'd)*

Our procedures included inspecting the terms detailed in the convertible bond subscription agreement. We involved our internal valuation expert to assist us to assess the valuation methodology adopted by the external valuer. Key assumptions, including risk-free rate, market multiples and marketability discount, are also assessed by us with the assistance from our internal valuer by comparing to available market information and valuation standard or practice. We also evaluated management's assessment for the possibility of potential investment used in the valuation.

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.

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 skepticism throughout the audit. We also:

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

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

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

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

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Cont'd)*

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Wan Fung.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**2,971,170**	3,290,156
Cost of sales		**(2,846,748)**	(3,090,007)
Gross profit		**124,422**	200,149
Other income and gains	5	**220,518**	56,847
Gain on disposal of subsidiaries, net	42	**1,030,055**	–
Selling expenses		**(24,553)**	(39,590)
Administrative expenses		**(297,789)**	(90,946)
Changes in fair value of investment properties	15	**–**	23,175
Other expenses, net		**(498,837)**	(35,677)
Finance costs	6	**(60,584)**	(18,490)
PROFIT BEFORE TAX	7	**493,232**	95,468
Income tax expense	10	**(132,336)**	(90,035)
PROFIT FOR THE YEAR		**360,896**	5,433
Attributable to:			
Ordinary equity holders of the Company		**360,908**	6,004
Non-controlling interests		**(12)**	(571)
		360,896	5,433
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**HK10.64 cents**	HK0.25 cent
Diluted		**HK10.59 cents**	N/A

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
PROFIT FOR THE YEAR	**360,896**	5,433
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
Other comprehensive income/(expenses) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange difference on translation of foreign operations	**(62,413)**	118,634
Release of exchange difference upon disposal of subsidiaries	**(73,971)**	–
Release of exchange difference upon deregistration of a subsidiary	**(561)**	–
OTHER COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR, NET OF TAX	**(136,945)**	118,634
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**223,951**	124,067
Attributable to:		
Ordinary equity holders of the Company	**223,963**	124,638
Non-controlling interests	**(12)**	(571)
	223,951	124,067

Consolidated Statement of Financial Position

31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**254,270**	244,120
Prepayments, deposits and other receivables	23	**2,197**	899
Interests in an associate	16	**–**	–
Other assets		**–**	1,080
Deferred tax assets	31	**367**	1,128
Total non-current assets		**256,834**	247,227
CURRENT ASSETS			
Properties under development	17	**7,476,000**	13,214,929
Inventories	18	**32,312**	28,369
Properties held for sale	19	**–**	–
Amounts due from customers for contract works	20	**–**	279,411
Trade and retention receivables	21	**167,135**	638,810
Contract assets	22	**923,526**	–
Prepayments, deposits and other receivables	23	**1,033,451**	39,448
Financial assets at fair value through profit or loss	24	**1,292,262**	738,865
Tax prepaid		**30,778**	29,302
Structured deposits	25	**580,686**	–
Pledged bank balances	25	**37,469**	41,414
Restricted cash	25	**1,430,897**	–
Cash and cash equivalents	25	**2,854,257**	2,327,460
		15,858,773	17,338,008
Assets of disposal groups classified as held for sale	11	**1,202,864**	2,183,957
Total current assets		**17,061,637**	19,521,965
CURRENT LIABILITIES			
Trade and retention payables and accruals	26	**693,071**	581,468
Other payables, deposits received and receipts in advance	27	**3,755**	34,395
Contract liabilities	22	**69,197**	–
Amounts due to customers for contract works	20	**–**	247,027
Interest-bearing bank borrowings	28	**232,952**	5,809,375
Tax payable		**80,136**	1,954
		1,079,111	6,674,219
Liabilities directly associated with the assets classified as held for sale	11	**459,272**	416,209
Total current liabilities		**1,538,383**	7,090,428
NET CURRENT ASSETS		**15,523,254**	12,431,537
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,780,088**	12,678,764

Consolidated Statement of Financial Position

31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**3,001,340**	70,642
Interest-bearing other borrowing	29	**300,000**	–
Guaranteed notes	30	**298,857**	295,343
Deferred tax liabilities	31	**17,228**	94,778
Total non-current liabilities		**3,617,425**	460,763
Net assets		**12,162,663**	12,218,001
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	32	**336,483**	340,249
Reserves	34	**11,826,182**	11,877,742
		12,162,665	12,217,991
Non-controlling interests		**(2)**	10
Total equity		**12,162,663**	12,218,001

SUN KIN HO STEVEN
Director

LIU JUNCHUN
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to ordinary equity holders of the Company											
	Notes	Issued capital *HK$'000*	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Share option reserve *HK$'000*	Statutory reserves *HK$'000* (note 34)	Asset revaluation reserve# *HK$'000*	Exchange fluctuation reserve *HK$'000*	Forward equity contract *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2017		113,416	1,032,150	563,861	–	51,302	4,129	(45,083)	(104,598)	1,334,194	2,949,371	10,359	2,959,730
Profit/(loss) for the year		–	–	–	–	–	–	–	–	6,004	6,004	(571)	5,433
Other comprehensive income for the year:													
Exchange difference on translation of foreign operations		–	–	–	–	–	–	118,634	–	–	118,634	–	118,634
Total comprehensive income/(expenses) for the year		–	–	–	–	–	–	118,634	–	6,004	124,638	(571)	124,067
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(3,000)	(3,000)
Acquisition of additional interests in a subsidiary	41	–	–	–	–	–	–	–	104,598	(97,820)	6,778	(6,778)	–
Loan from non-controlling interests		–	–	–	–	–	–	–	–	–	–	2,506	2,506
Repayment of a loan to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(2,506)	(2,506)
Issue of shares	32	226,833	9,027,961	–	–	–	–	–	–	–	9,254,794	–	9,254,794
Share issue expenses	32	–	(4,174)	–	–	–	–	–	–	–	(4,174)	–	(4,174)
2016 final dividend declared and paid	12	–	–	–	–	–	–	–	–	(113,416)	(113,416)	–	(113,416)
At 31 December 2017		340,249	10,055,937*	563,861*	–*	51,302*	4,129*	73,551*	–*	1,128,962*	12,217,991	10	12,218,001

\# The asset revaluation reserve arose from a change in use from an owner-occupied property to an investment property carried at fair value during the period ended 31 December 2016.

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to ordinary equity holders of the Company											
	Notes	Issued capital *HK$'000*	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Share option reserve *HK$'000*	Statutory reserves *HK$'000* (note 34)	Asset revaluation reserve# *HK$'000*	Exchange fluctuation reserve *HK$'000*	Forward equity contract *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 31 December 2017		340,249	10,055,937	563,861	–	51,302	4,129	73,551	–	1,128,962	12,217,991	10	12,218,001
Effect of adoption of HKFRS 15	2.2	–	–	–	–	–	–	–	–	5,929	5,929	–	5,929
At 1 January 2018 (restated)		340,249	10,055,937	563,861	–	51,302	4,129	73,551	–	1,134,891	12,223,920	10	12,223,930
Profit/(loss) for the year		–	–	–	–	–	–	–	–	360,908	360,908	(12)	360,896
Other comprehensive expenses for the year:													
Exchange difference on translation of foreign operations		–	–	–	–	–	–	(62,413)	–	–	(62,413)	–	(62,413)
Release of exchange difference upon disposal of subsidiaries		–	–	–	–	–	–	(73,971)	–	–	(73,971)	–	(73,971)
Release of exchange difference upon deregistration of a subsidiary		–	–	–	–	–	–	(561)	–	–	(561)	–	(561)
Total comprehensive income/ (expenses) for the year		–	–	–	–	–	–	(136,945)	–	360,908	223,963	(12)	223,951
Shares repurchased and cancelled	32	(3,886)	(54,129)	–	–	–	–	–	–	–	(58,015)	–	(58,015)
Equity-settled share option arrangements	33	–	–	–	160,060	–	–	–	–	–	160,060	–	160,060
Transfer of share option reserve upon the expiry of share options	33	–	–	–	(10,284)	–	–	–	–	10,284	–	–	–
Issue of shares	32	120	2,481	–	(501)	–	–	–	–	–	2,100	–	2,100
Release of reserves upon disposal of subsidiaries	42(a)	–	–	–	–	(49,114)	(4,129)	–	–	4,129	(49,114)	–	(49,114)
2017 final dividend declared and paid	12	–	–	–	–	–	–	–	–	(340,249)	(340,249)	–	(340,249)
At 31 December 2018		336,483	10,004,289*	563,861*	149,275*	2,188*	–*	(63,394)*	–*	1,169,963*	12,162,665	(2)	12,162,663

* These reserve accounts comprise the consolidated reserves of HK$11,826,182,000 (2017: HK$11,877,742,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**493,232**	95,468
Adjustments for:			
Finance costs	6	**60,584**	18,490
Gain on disposal of subsidiaries, net		**(1,030,055)**	–
Gain on disposal of interests in an associate	7	**(143)**	–
Interest income	5	**(41,675)**	(15,844)
Gain on disposal of items of property, plant and equipment	7	**(4,683)**	(7,308)
Equity-settled share option expense	7	**160,060**	–
Depreciation	7	**48,465**	61,388
Fair value gain on financial assets at fair value through profit or loss	7	**(153,777)**	(10,865)
Gain on disposal of an investment fund at fair value through profit or loss	7	**–**	(11,163)
Fair value loss on a derivative financial instrument	7	**–**	33,057
Changes in fair value of investment properties	7	**–**	(23,175)
Write-down of properties under development	7	**452,903**	–
Impairment of contract assets	7	**2,048**	–
Impairment/(write-back of impairment) of other receivables	7	**(144)**	1,029
Impairment/(write-back of impairment) of an amount due from an associate	7	**(13)**	13
		(13,198)	141,090
Increase in properties under development and properties held for sale, net		**(121,267)**	(12,570,514)
Increase in inventories		**(3,943)**	(11,858)
Decrease in amounts due from customers for contract works		**–**	16,482
Increase in contract assets		**(225,224)**	–
Decrease/(increase) in trade and retention receivables		**(40,463)**	158,572
Decrease/(increase) in prepayments, deposits and other receivables		**(44,029)**	21,399
Decrease in an amount due to a related company		**(9,668)**	–
Increase in trade and retention payables and accruals		**(41,456)**	(129,287)
Increase/(decrease) in other payables, deposits received and receipts in advance		**(56,334)**	28,594
Decrease in amounts due to customers for contract works		**–**	(172,277)
Increase in contract liabilities		**(132,770)**	–
Decrease in deposits received		**–**	(43,839)
Cash used in operations		**(688,352)**	(12,561,638)
Taxes paid in the People's Republic of China (the "PRC"):			
Hong Kong		**(1,896)**	(136,679)
Elsewhere		**(114,933)**	(268,169)
Taxes refunded in the PRC:			
Hong Kong		**485**	1,777
Elsewhere		**3**	2,444
Effect of foreign exchange rate changes, net		**(4,905)**	(10,721)
Net cash flows used in operating activities		**(809,598)**	(12,972,986)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**41,675**	15,844
Purchases of items of property, plant and equipment		**(58,775)**	(11,397)
Deposits paid for acquisition of items of property, plant and equipment	23	**(335)**	(41)
Proceeds from disposal of items of property, plant and equipment		**4,866**	8,234
Proceeds from disposal of subsidiaries	42	**6,650,083**	–
Proceeds from disposal of an associate	16	**143**	–
Decrease/(increase) in an amount due from an associate		**13**	(13)
Capital injection to a financial asset at fair value through profit or loss	24(i)	**(633,160)**	(728,000)
Return of initial capital from financial assets at fair value through profit or loss	24(i)	**1,361,160**	–
Purchase of an investment fund at fair value through profit or loss	24(ii)	**(345,246)**	(600,600)
Proceeds from disposal of an investment fund at fair value through profit or loss		**–**	611,763
Subscription of convertible bonds	24(iii)	**(800,000)**	–
Advance payment for capital contribution to a financial asset at fair value through profit or loss	23	**(367,700)**	–
Investment income from a financial asset at fair value through profit or loss		**17,626**	–
Increase in a derivative financial instrument		**–**	(2,351)
Redemption of a derivative financial instrument		**–**	7,767
Increase in restricted cash		**(1,430,897)**	–
Increase in structured deposits		**(580,686)**	–
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**(2,000,000)**	34,237
Net cash flows from/(used in) investing activities		**1,858,767**	(664,557)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32	**2,100**	2,323,624
Advance receipt for issue of shares	33	**2,100**	–
Share issue expenses	32	**–**	(4,174)
Shares repurchased	32	**(58,015)**	–
Proceeds from issue of guaranteed notes	30	**–**	305,000
Guaranteed notes issue expenses	30	**–**	(10,849)
Interest paid		**(214,040)**	(106,992)
New bank borrowings		**2,929,000**	6,983,434
New other borrowing		**300,000**	–
Repayment of bank borrowings		**(5,580,353)**	(1,579,304)
Loan from non-controlling interests		**–**	2,506
Loan from the immediate holding company		**–**	9,150,000
Loan from an intermediate holding company		**–**	460,040
Repayment of loan to the immediate holding company		**–**	(2,218,830)
Repayment of loan to an intermediate holding company		**–**	(460,040)
Repayment of loan to non-controlling interests		**–**	(2,506)
Acquisition of additional interest in a subsidiary	41	**–**	(104,598)
Dividends paid to non-controlling interests		**–**	(3,000)
Dividends paid		**(340,249)**	(113,416)
Net cash flows from/(used in) financing activities		**(2,959,457)**	14,620,895
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,910,288)**	983,352
Cash and cash equivalents at beginning of year		**2,817,211**	1,824,211
Effect of foreign exchange rate changes, net		**8,486**	9,648
CASH AND CASH EQUIVALENTS AT END OF YEAR		**915,409**	2,817,211
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**854,257**	2,077,460
Non-pledged time deposits	25	**2,000,000**	250,000
Cash and cash equivalents as stated in the consolidated statement of financial position		**2,854,257**	2,327,460
Less: Non-pledged time deposits with original maturity of over three months when acquired		**(2,000,000)**	–
Add: Pledged bank balances	25	**37,469**	41,414
Add: Cash and cash equivalents attributable to the disposal groups	11	**23,683**	448,337
Cash and cash equivalents as stated in the consolidated statement of cash flows		**915,409**	2,817,211

Notes to Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION

Hong Kong International Construction Investment Management Group Co., Limited is a limited liability company incorporated in Bermuda.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is located at 20th Floor, One Island South, No. 2 Heung Yip Road, Wong Chuk Hang, Hong Kong.

During the year, the Group was involved in the following principal activities:

- foundation piling and site investigation
- property development and investment
- investment

There were no significant changes in the nature of the Group's principal activities during the year.

As at 31 December 2018, the immediate holding company of the Company was HNA Finance I Co., Ltd., a company incorporated in Anguilla with limited liability and ultimately controlled by Hainan Province Cihang Foundation. Upon the completion of the transfer of approximately 69.54% of issued shares of the Company by HNA Finance I Co. Ltd. to Times Holdings II Limited on 27 March 2019, the Company has become a subsidiary of Times Holdings II Limited, a company incorporated in the Cayman Islands and ultimately controlled by The Blackstone Group L.P., which is listed on the New York Stock Exchange.

Information About Subsidiaries

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

Name	Place of incorporation/ registration and business	Issued share/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2018	2017	
Tysan Foundation (Hong Kong) Limited ("TFHKL")	Hong Kong	Ordinary HK$100	**100**	100	Investment holding
Tysan Contractors (Hong Kong) Limited (note 1)	Hong Kong	Ordinary HK$2	**100**	100	Project management and provision of consultancy and management services
Tysan Construction (Macau) Limited (note 1)	Macau	Ordinary MOP25,000	**100**	100	Foundation piling
Tysan Foundation Limited (notes 1 and 2)	Hong Kong	Ordinary HK$141,000,000 Deferred HK$3,000,000	**100**	100	Foundation piling and site investigation
Tysan Foundation Geotechnical Limited (note 1)	Hong Kong	Ordinary HK$60,110,000	**100**	100	Foundation piling and site investigation
Tysan Machinery Hire Limited (notes 1 and 2)	Hong Kong	Ordinary HK$10,000 Deferred HK$200,000	**100**	100	Machinery hiring

1. CORPORATE AND GROUP INFORMATION *(Cont'd)*

Information About Subsidiaries *(Cont'd)*

Name	Place of incorporation/ registration and business	Issued share/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2018	2017	
Proficiency Equipment Limited (note 1)	Hong Kong	Ordinary HK$24,480,000	**100**	100	Machinery hiring and trading
Proficiency Engineering Limited (note 1)	Hong Kong	Ordinary HK$2	**100**	100	Provision of engineering services and machinery hiring
Lion Bright Limited (note 1)	Hong Kong	Ordinary HK$2	**100**	100	Machinery hiring and trading
Mac Proficiency Limited (note 1)	Macau	Ordinary MOP25,000	**100**	100	Provision of engineering services and machinery hiring
Tysan Management Limited (note 2)	Hong Kong	Ordinary HK$16,720,850 Deferred HK$2	**100**	100	Corporate management
Tysan Investment Limited	Hong Kong	Ordinary HK$2	**100**	100	Investment holding
Cottontree Pacific Limited*	British Virgin Islands ("BVI")	Ordinary HK$1	**100**	100	Investment holding
Tysan Foundation Holdings Limited* (note 1)	Bermuda	Ordinary HK$0.1	**100**	100	Investment holding
HKICIM Group Property Development & Investment Limited	Hong Kong	Ordinary HK$2	**100**	100	Investment holding
Sure Faith Investment Limited (note 1)	Hong Kong	Ordinary HK$2	**100**	100	Property holding
Duncan Properties Limited (note 1)	Hong Kong	Ordinary HK$2	**100**	100	Investment holding
Beneficial Enterprises Limited* (note 1)	BVI	Ordinary US$100	**100**	100	Investment holding
Fund House Limited (notes 1 and 5)	Hong Kong	Ordinary HK$2	**–**	100	Investment holding
Duncan Property Management (Shanghai) Company Limited* (notes 1, 3 and 5)	PRC/Mainland China	US$500,000	**–**	100	Property management
Federated Resources Limited* (note 1)	BVI	Ordinary US$100	**100**	100	Investment holding
Carriway Limited (note 1)	Hong Kong	Ordinary HK$2	**100**	100	Investment holding
Shanghai Changning Duncan Property Consulting Company Limited* (notes 1 and 3)	PRC/Mainland China	RMB200,000	**100**	100	Property consulting

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1. CORPORATE AND GROUP INFORMATION *(Cont'd)*

Information About Subsidiaries *(Cont'd)*

Name	Place of incorporation/ registration and business	Issued share/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2018	2017	
Great Regent Investments Limited (note 1)	Hong Kong	Ordinary HK$2	**100**	100	Investment holding and provision of sales and marketing services
Tysan Land (Shanghai) Limited* ("Tysan Shanghai") (notes 1, 4 and 5)	PRC/Mainland China	US$1,000,000	**–**	100	Property development
Great Prosper Limited (note 1)	Hong Kong	Ordinary HK$100	**100**	100	Investment holding and provision of sales and marketing services
Tysan Property Development (Tianjin) Company Limited* ("Tysan Tianjin") (notes 1, 3 and 5)	PRC/Mainland China	US$5,000,000	**–**	100	Property development
Sparkle Key Limited (note 1)	Hong Kong	Ordinary HK$10,000	**100**	100	Investment holding
Tysan Land (Shenyang) Limited* ("Tysan Shenyang") (notes 1 and 3)	PRC/Mainland China	US$108,300,000	**100**	100	Property development
Gainful Engineering Limited (note 1)	Hong Kong	Ordinary HK$1	**100**	100	Project management
Omnilink Assets Limited*	BVI	Ordinary HK$1	**100**	100	Investment holding
Onwards Asia Limited* (notes 1 and 5)	BVI	Ordinary HK$1	**–**	100	Investment holding
Top Genius Holdings Limited (notes 1 and 5)	Hong Kong	Ordinary HK$1	**–**	100	Property development
Twinpeak Assets Limited* (notes 1 and 6)	BVI	Ordinary HK$1	**100**	100	Investment holding
Milway Development Limited (notes 1 and 6)	Hong Kong	Ordinary HK$1	**100**	100	Property development
Silverbell Asia Limited*	BVI	Ordinary HK$1	**100**	100	Corporate financing
Benefit Developments Limited*	BVI	Ordinary HK$1	**100**	100	Investment
HKICIM (GP) II Limited* (note 1)	Cayman Islands	Ordinary US$1	**100**	100	Investment

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1. CORPORATE AND GROUP INFORMATION *(Cont'd)*

Information About Subsidiaries *(Cont'd)*

Name	Place of incorporation/ registration and business	Issued share/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2018	2017	
Benefit Developments III Limited*	BVI	Ordinary HK$1	**100**	100	Investment
HKICIM (GP) III Limited* (note 1)	Cayman Islands	Ordinary US$1	**100**	100	Investment

Notes:

1. Held through subsidiaries.

2. The deferred shares carry no rights to dividends (other than a fixed non-cumulative dividend at the rate of 5% per annum for any financial year during which the net profit of the relevant company available for dividends exceeds HK$1 billion), no rights to vote at general meetings, no rights to receive any surplus on a return of capital on a winding-up (other than the amount paid up on such shares, provided that the holders of the ordinary shares of that company have been distributed in such a winding-up of a sum of HK$1,000 billion in respect of each ordinary share).

3. These entities are registered as wholly-foreign-owned enterprises under the PRC law.

4. This entity was registered as a Sino-foreign joint venture under the PRC law.

5. These entities were disposed of during the year. Details of the disposals were disclosed in note 42 to the financial statements.

6. These entities were disposed of subsequent to the end of the reporting period. Details of the disposals were disclosed in note 46(a) to the financial statements.

* Subsidiaries whose statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

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, financial assets at fair value through profit or loss and derivative financial instrument which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Notes to Financial Statements

31 December 2018

2.1 BASIS OF PREPARATION *(Cont'd)*

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.

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

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

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

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

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.

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*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
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 *(Cont'd)*

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) 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 aspect of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. There is no significant impact on the Group's financial position and financial performance upon initial application at 1 January 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

Classification and Measurement

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, the classification for all of the Group's financial assets measured at amortised cost and at fair value through profit or loss remain the same. Trade receivables, financial assets included in prepayments, deposits and other receivables, pledged bank balances and cash and cash equivalents which are previously classified as loans and receivables under HKAS 39 are classified as financial assets at amortised cost upon initial application of HKFRS 9. The carrying amounts for all financial assets at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss ("ECL") model either on a twelve-month basis or a lifetime basis. The Group applies the simplified approach and record lifetime expected credit loss based on the present values of all cash shortfalls over the remaining life of all of its trade receivables and contract assets. Furthermore, the Group applies the general approach and record twelve-month expected credit loss that are estimated based on the possible default events on its other receivables and other financial assets at amortised cost within the next twelve months. There is no impact on the Group's accumulated impairment losses recorded on financial assets at 1 January 2018 upon initial adoption of the ECL requirements under HKFRS 9.

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Cont'd)*

(b) 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. The disclosures are included in notes 3 and 5 to the financial statements. 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 cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 are described below:

Construction Services

Before the adoption of HKFRS 15, contract balances relating to construction contracts in progress were presented in the statement of financial position under "Amounts due from customers for contract works" or "Amounts due to customers for contract works" respectively. Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognise the related revenue before being unconditionally entitled to the promised goods or services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Before the adoption of HKFRS 15, retention receivables arising from construction contracts, that were conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, were included in trade receivables. Upon adoption of HKFRS 15, retention receivables are reclassified to contract assets or contract liabilities on an individual contract basis.

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Cont'd)*

(b) *(Cont'd)*

Construction Services *(Cont'd)*

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Increase/ (decrease) *HK$'000*
Assets	
Amounts due from customers for contract works	(279,411)
Trade and retention receivables	(511,850)
Contract assets	700,350
Total assets	(90,911)
Liabilities	
Trade and retention payables and accruals	1,481
Amounts due to customers for contract works	(247,027)
Contract liabilities	148,706
Total liabilities	(96,840)
Equity	
Retained profits	5,929

Notes to Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Cont'd)*

(b) *(Cont'd)*

Construction Services *(Cont'd)*

Set out below are the amounts by which each financial statement line item was affected for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on the Group's other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Amounts prepared under		
	HKFRS 15	Previous HKFRS	Increase/ (decrease)
	HK$'000	*HK$'000*	*HK$'000*
Revenue	2,971,170	3,030,858	(59,688)
Cost of sales	(2,846,748)	(2,900,621)	53,873
Gross profit	124,422	130,237	(5,815)
Profit before tax	493,232	499,047	(5,815)
Income tax expense	(132,336)	(132,336)	–
Profit for the year	360,896	366,711	(5,815)
Attributable to:			
Ordinary equity holders of the Company	360,908	366,723	(5,815)
Non-controlling interests	(12)	(12)	–
	360,896	366,711	(5,815)
Earnings per share attributable to ordinary equity holders of the Company			
Basic	HK10.64 cents	HK10.81 cents	(HK0.17 cent)
Diluted	HK10.59 cents	HK10.76 cents	(HK0.17 cent)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Cont'd)*

(b) *(Cont'd)*

Construction Services *(Cont'd)*

Consolidated statement of financial position as at 31 December 2018:

	Amounts prepared under		
	HKFRS 15	Previous HKFRS	Increase/ (decrease)
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from customers for contract works	–	404,036	(404,036)
Trade and retention receivables	167,135	734,188	(567,053)
Contract assets	923,526	–	923,526
Total assets	1,090,661	1,138,224	(47,563)
Trade and retention payables and accruals	693,071	677,580	15,491
Amounts due to customers for contract works	–	132,365	(132,365)
Contract liabilities	69,197	–	69,197
Total liabilities	762,268	809,945	(47,677)
Net assets	328,393	328,279	114
Retained profits	1,169,963	1,169,849	114
Total equity	1,169,963	1,169,849	114

Sale of Properties

The Group's property development activities are carried out in the PRC and Hong Kong. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of the PRC and Hong Kong, the Group has assessed that its property sales contracts do not meet the criteria for recognising revenue over time and therefore revenue from property sales continues to be recognised at a point in time. Previously the Group recognised revenue from property sales upon handover of the property to buyer, which is taken to be the point in time when the risks and rewards of ownership of the property have been transferred to the buyer. Under the transfer-of-control approach in HKFRS 15, revenue from property sales is generally recognised when the 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.

Prior to the adoption of HKFRS 15, the Group presented sales proceeds received from customers in connection with the Group's sale of properties as deposits received in the consolidated statement of financial position. No significant financing component with a customer is recognised if the time period is one year or less.

The adoption of HKFRS 15 has had no significant impact on when the Group recognised revenue from sale of properties.

Notes to Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 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.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

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 earnings 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$43,668,000 and lease liabilities of HK$43,668,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in Associates

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

The Group's interests in associates 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 associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Fair Value Measurement

The Group measures its investment properties, financial assets at fair value through profit or loss and derivative financial instruments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Fair Value Measurement *(Cont'd)*

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.

Impairment of Non-Financial Assets

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, properties under development, properties held for sale, inventories, construction contract assets, financial assets and disposal groups classified as held for sale), the asset's recoverable amount is calculated as the higher of the asset'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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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 of a parent of the Group;

or

(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.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, Plant and Equipment and Depreciation *(Cont'd)*

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Leasehold land under finance leases	Over the lease terms
Buildings	5%
Equipment and machinery	10% – 33⅓%
Furniture and fixtures	20%
Motor vehicles	20%
Motor yacht	10%
Leasehold improvements	10% – 33⅓%

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 statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment Properties

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

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

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investment Properties *(Cont'd)*

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Non-Current Assets and Disposal Groups Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Properties Under Development

Properties under development which are developed in the ordinary course of business are included in current assets at the lower of cost and net realisable value.

The cost of properties under development comprises land cost, construction costs, professional fees, borrowing costs capitalised according to the Group's policy and other directly attributable expenses incurred during the development period. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

On completion of construction, the properties are transferred to properties held for sale.

Properties Held for Sale

Properties held for sale are stated in the statement of financial position at the lower of cost and net realisable value. Cost includes the cost of land, interest capitalised during the period of development and other direct costs attributable to the development of the properties. Net realisable value is determined by reference to the prevailing market prices on an individual property basis, less all costs to completion, if applicable, and costs of marketing and selling.

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 estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leases *(Cont'd)*

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 statement of profit or loss on the straight-line basis over the lease terms.

Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and Other Financial Assets (Policies Under HKFRS 9 Applicable from 1 January 2018) *(Cont'd)*

Subsequent Measurement *(Cont'd)*

Financial Assets at Amortised Cost (Debt Instruments) (Cont'd)

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 statement of profit or loss when the asset is derecognised, modified or impaired.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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 financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and Other Financial Assets (Policies Under HKAS 39 Applicable Before 1 January 2018) *(Cont'd)*

Subsequent Measurement

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

Financial Assets at Fair Value through Profit or Loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

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

Loans and Receivables

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

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments and Other Financial Assets (Policies Under HKAS 39 Applicable Before 1 January 2018) *(Cont'd)*

Subsequent Measurement *(Cont'd)*

Available-For-Sale Financial Investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of Financial Assets (Policies Under HKFRS 9 Applicable from 1 January 2018) *(Cont'd)*

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.

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.

Debt investments at fair value through other comprehensive income and 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 and contract assets 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.

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of Financial Assets (Policies Under HKAS 39 Applicable Before 1 January 2018) *(Cont'd)*

Available-For-Sale Financial Investments

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

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

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

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

Derecognition of Financial Assets (Policies Under HKFRS 9 Applicable from 1 January 2018 and Policies Under 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.

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

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

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

Subsequent Measurement

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

Loans and Borrowings

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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 statement of profit or loss.

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.

Derivative Financial Instruments (Policies Under HKFRS 9 Applicable from 1 January 2018 and HKAS 39 Applicable Before 1 January 2018)

Initial Recognition and Subsequent Measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Current Versus Non-Current Classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Inventories

Inventories are stated at the lower of cost, on the first-in, first-out basis, and net realisable value after making due allowance for any obsolete or slow-moving items. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction Contracts (Applicable Before 1 January 2018)

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fees earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from a contract customer.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to a contract customer.

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 bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside statement of profit or loss is recognised, 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 associates, 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 future 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 associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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.

(a) *Construction Services*

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration 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.

(b) *Sale Of Properties Held For Sale*

Revenue from sale of 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.

(c) *Provision of Property and Fund Management Services*

Revenue from the provision of management services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue Recognition (Applicable from 1 January 2018) *(Cont'd)*

Revenue from contracts with customers *(Cont'd)*

(d) Machinery Engineering Services

Revenue from the provision of machinery engineering services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(e) Machinery Trading

Revenue from machinery trading is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the machineries.

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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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:

(a) From Foundation Piling and Site Investigation Contracts

On the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before 1 January 2018)" above;

(b) From the Sale of Properties Held for Sale

When the significant risks and rewards of ownership have been transferred to the buyer;

(c) From Machinery Trading

When the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the machines sold;

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue Recognition (Applicable Before 1 January 2018) *(Cont'd)*

(d) Rental Income from Property and Machinery Leasing

In the period in which the properties and machines are leased and on the straight-line basis over the lease terms;

(e) From the Rendering of Property and Fund Management Services

In the period in which such services are rendered;

(f) 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 to the net carrying amount of the financial asset; and

(g) Dividend Income

When shareholder's right to receive payment has been established.

Contract Assets (Applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract Liabilities (Applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract Costs (Applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Employee Benefits

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 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.

The cost of equity-settled transactions is recognised in employee benefit expense, 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 statement of profit or loss 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 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.

Notes to Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Employee Benefits *(Cont'd)*

Paid Leave Carried Forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension Schemes

The Group operated a defined contribution provident fund (the "Fund") for certain of its employees in Hong Kong, the assets of which were held separately from those of the Group and were managed by an independent professional fund manager. Contributions under the Fund were made based on a percentage of the eligible employees' basic salaries and were charged to the statement of profit or loss as they became payable in accordance with the rules of the scheme. The ongoing contributions to the Fund were terminated on 1 April 1999.

Following the introduction of the Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme"), the Group has restructured its retirement scheme arrangements to comply with the Mandatory Provident Fund Schemes Ordinance. The Group has secured a Mandatory Provident Fund exemption status for the Fund and, in addition, has participated in an approved defined contribution MPF Scheme with effect from 1 December 2001, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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 statement of profit or loss.

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

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 are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Cont'd)*

Judgement

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

Current and Deferred Tax

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the amount of the provision for tax and the timing of payment of the related taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will have an impact on the income tax and deferred tax provisions in the period in which such determination is made. Further details are disclosed in notes 10 and 31 to the financial statements.

Estimation Uncertainty

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

Provision for Expected Credit Losses on Trade Receivables and Contract Assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due.

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. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. 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 and contract assets is disclosed in notes 21 and note 22 to the financial statements, respectively.

Fair value of convertible bonds

The convertible bonds have been valued based on a multiple valuation technique as detailed in note 44 to the financial statements. The valuation requires the Group to determine the comparable companies and select the appropriate market multiples. In addition, the Group makes estimates about marketability discount and risk-free rate used. Management's estimation on the probability of potential investment is also involved. The Group classifies the fair value of the convertible bonds as Level 3. The fair value of the convertible bonds at 31 December 2018 was HK$833,732,000 (2017: Nil). Further details are disclosed in note 24 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Cont'd)*

Estimation Uncertainty *(Cont'd)*

Impairment of Trade and Retention Receivables

Before 1 January 2018, the policy for impairment of trade and retention receivables of the Group is based on the evaluation of collectibility and ageing analysis of trade and retention receivables and on management's judgement. Significant judgement and estimates is required in assessing the ultimate realisation of these receivables, based on the current creditworthiness, the past collection history and subsequent settlements of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions may be required. Further details are disclosed in note 21 to the financial statements.

Percentage of Completion of Construction Works

The Group recognises revenue according to the percentage of completion of the individual contract of construction works. The Group's management estimates the percentage of completion of construction works based on actual costs incurred over the total budgeted costs. Corresponding contract revenue was also estimated by management based on contract sum and works values from variation works. Because of the nature of the activities undertaken for the construction contracts, the date at which the contracts are entered into and the date when the contract are completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.

When determining the total budgeted costs, management makes reference to information such as (i) current or recent offers from subcontractors and suppliers, (ii) variation orders received from customers, and (iii) estimation on material costs, labour costs and other costs for the completion of the projects provided by quantity survey department.

Mainland China Land Appreciation Taxes ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

Subsidiaries of the Group engaging in the property development business in Mainland China are subject to LAT. The Group has not yet finalised its LAT calculation and payments for certain of its property development projects with various tax authorities and the deductibility of expenditures incurred for each project is uncertain. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The Group recognises these liabilities based on management's best estimates with reference to the past experience, tax regulations and correspondences with local tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated financial statements in the period in which such determination is made. Further details are disclosed in note 10 to the financial statements.

Write-Down of Properties Under Development

The Group performs a regular review on the carrying amounts of properties under development. Based on management's review, write-down of properties under development will be made when the estimated net realisable value has declined below the carrying amount.

In determining whether write-down should be made for the Group's properties under development, the Group takes into consideration the current market environment and the estimated net realisable value (i.e. the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale). A write-down is made if the estimated or actual net realisable value of the properties under development is less than the carrying amount as a result of change in market condition and/or significant variation in the budgeted development cost. Further details are disclosed in note 17 to the financial statements.

Notes to Financial Statements

31 December 2018

4. OPERATING SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Operating segments are reported in a manner consistent with internal reporting to the Company's key management personnel as follows:

(a) the foundation piling segment (including site investigation operation);

(b) the property development and investment segment;

(c) the investment segment; and

(d) the "corporate and others" segment comprises, principally, the Group's corporate operation, and machinery leasing and trading businesses.

Management 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.

The adjusted profit/loss before tax is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs and fair value gain/loss on derivative instrument are excluded from such measurement.

Segment assets exclude deferred tax assets, tax prepaid and time deposits as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION *(Cont'd)*

Year Ended 31 December 2018

	Foundation piling		Property development and investment		Investment		Corporate and others		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue: (note 5)										
Sales to external customers	**2,530,539**	2,494,053	**282,973**	738,420	**122,206**	6,443	**35,452**	51,240	**2,971,170**	3,290,156
Intersegment sales	**393,409**	100,560	**–**	–	**–**	–	**1,151**	1,815	**394,560**	102,375
Other income and gains, net	**7,697**	11,203	**16,443**	6,296	**137,013**	10,865	**17,690**	12,639	**178,843**	41,003
Total	**2,931,645**	2,605,816	**299,416**	744,716	**259,219**	17,308	**54,293**	65,694	**3,544,573**	3,433,534
Reconciliation:										
Elimination of intersegment sales									**(394,560)**	(102,375)
Revenue									**3,150,013**	3,331,159
Segment results	**(23,306)**	146,873	**578,524**	51,807	**242,826**	15,546	**(285,903)**	(83,055)	**512,141**	131,171
Interest income									**41,675**	15,844
Fair value loss on derivative instrument – transaction not qualifying as hedge									**–**	(33,057)
Finance costs									**(60,584)**	(18,490)
Profit before tax									**493,232**	95,468
Income tax expense									**(132,336)**	(90,035)
Profit for the year									**360,896**	5,433
Assets and liabilities										
Segment assets	**1,502,496**	1,196,000	**11,171,091**	15,473,222	**1,044,951**	745,308	**988,102**	2,074,232	**14,706,640**	19,488,762
Unallocated									**2,611,831**	280,430
									17,318,471	19,769,192
Segment liabilities	**708,062**	775,201	**475,430**	474,569	**2,092**	455	**338,568**	324,217	**1,524,152**	1,574,442
Unallocated									**3,631,656**	5,976,749
									5,155,808	7,551,191

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31 December 2018

4. OPERATING SEGMENT INFORMATION *(Cont'd)*

Year Ended 31 December 2018 *(Cont'd)*

	Foundation piling		Property development and investment		Investment		Corporate and others		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:										
Depreciation	**30,701**	41,630	**7,784**	1,208	**–**	–	**9,980**	18,550	**48,465**	61,388
Impairment of contract assets	**2,048**	–	**–**	–	**–**	–	**–**	–	**2,048**	–
Impairment/(write-back of impairment) of other receivables	**–**	–	**(144)**	1,029	**–**	–	**–**	–	**(144)**	1,029
Write-off of other receivables	**–**	–	**–**	–	**232**	–	**–**	–	**232**	–
Write-down of properties under development	**–**	–	**452,903**	–	**–**	–	**–**	–	**452,903**	–
Loss/(gain) on disposal of items of property, plant and equipment, net	**(4,669)**	(6,969)	**5**	36	**–**	–	**(20)**	(375)	**(4,684)**	(7,308)
Loss/(gain) on disposal of subsidiaries, net	**–**	–	**(1,030,771)**	–	**–**	–	**716**	–	**(1,030,055)**	–
Gain on disposal of interests in an associate	**–**	–	**–**	–	**–**	–	**(143)**	–	**(143)**	–
Changes in fair value of investment properties	**–**	–	**–**	(23,175)	**–**	–	**–**	–	**–**	(23,175)
Gain on disposal of an investment fund at fair value through profit or loss	**–**	–	**–**	–	**–**	–	**–**	(11,163)	**–**	(11,163)
Fair value gain on financial assets at fair value through profit or loss	**–**	–	**–**	–	**(137,012)**	(10,865)	**(16,765)**	–	**(153,777)**	(10,865)
Capital expenditure	**56,733**	9,509	**–**	144	**–**	–	**2,083**	3,738	**58,816**	13,391

4. OPERATING SEGMENT INFORMATION *(Cont'd)*

Geographical Information

(a) Revenue from External Customers

	Hong Kong		Macau		Elsewhere in the PRC		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**2,698,625**	2,553,979	**–**	3,122	**272,545**	733,055	**2,971,170**	3,290,156

The revenue information above is based on the locations of the customers.

(b) Non-Current Assets

Hong Kong		Macau		Elsewhere in the PRC		Consolidated	
2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
256,467	246,081	**–**	–	**–**	18	**256,467**	246,099

The non-current assets information above is based on the locations of the assets and excludes deferred tax assets.

Information About Major Customers

Revenue of approximately HK$565,430,000, HK$388,882,000 and HK$321,732,000 were derived from sales by the foundation piling segment to Customer A, Customer B and Customer C, respectively, during the year. Revenue of approximately HK$844,447,000 was derived from sales by the foundation piling segment to Customer A during the year ended 31 December 2017.

5. REVENUE AND OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers	**2,951,990**	–
Foundation piling and site investigation	**–**	2,494,053
Property development and investment	**–**	738,420
Management fee income from an investment fund	**–**	6,443
Others	**–**	51,240
Revenue from other sources		
Gross rental income	**19,180**	–
	2,971,170	3,290,156

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5. REVENUE AND OTHER INCOME AND GAINS *(Cont'd)*

Revenue from Contracts With Customers

(i) Disaggregated Revenue Information

For the year ended 31 December 2018

Segments	Foundation piling *HK$'000*	Property development and investment *HK$'000*	Investment *HK$'000*	Corporate and others *HK$'000*	Total *HK$'000*
Types of goods or services					
Machinery trading	–	–	–	2,101	2,101
Sale of properties held for sale	–	266,654	–	–	266,654
Construction services	2,530,539	–	–	–	2,530,539
Machinery engineering services	–	–	–	20,062	20,062
Management services	–	10,428	122,206	–	132,634
Total revenue from contracts with customers	2,530,539	277,082	122,206	22,163	2,951,990
Geographical markets					
Hong Kong	2,530,539	10,428	122,206	22,163	2,685,336
Mainland China	–	266,654	–	–	266,654
Total revenue from contracts with customers	2,530,539	277,082	122,206	22,163	2,951,990
Timing of revenue recognition					
Good transferred at a point of time	–	266,654	–	2,101	268,755
Services transferred over time	2,530,539	10,428	122,206	20,062	2,683,235
Total revenue from contracts with customers	2,530,539	277,082	122,206	22,163	2,951,990

5. REVENUE AND OTHER INCOME AND GAINS *(Cont'd)*

Revenue from Contracts With Customers *(Cont'd)*

(i) Disaggregated Revenue Information *(Cont'd)*

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	Foundation piling *HK$'000*	Property development and investment *HK$'000*	Investment *HK$'000*	Corporate and others *HK$'000*	Total *HK$'000*
Revenue from contracts with customers					
External customers	2,530,539	277,082	122,206	22,163	2,951,990
Intersegment sales	393,409	–	–	1,151	394,560
	2,923,948	277,082	122,206	23,314	3,346,550
Intersegment adjustments and eliminations	(393,409)	–	–	(1,151)	(394,560)
Total revenue from contracts with customers	2,530,539	277,082	122,206	22,163	2,951,990

(ii) Performance Obligations

Information about the Group's performance obligations is summarised below:

Construction Services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

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31 December 2018

5. REVENUE AND OTHER INCOME AND GAINS *(Cont'd)*

Revenue from Contracts With Customers *(Cont'd)*

(ii) Performance Obligations *(Cont'd)*

Sale of Properties Held for Sale

The performance obligation is satisfied when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property and payment is due upon delivery of the property to the customer.

Management Services

The performance obligation is satisfied over time as services are rendered. Management service contracts are for periods of one year or less, or are billed based on the time incurred.

Machinery Engineering Services

The performance obligation is satisfied over time as the customer simultaneously receives and consumes the support services as the Group continues to provide support services to the customer.

Machinery Trading

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 days from delivery.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	HK$'000
Within one year	2,185,433
More than one year	404,644
	2,590,077

The remaining performance obligations expected to be recognised in more than one year relate to construction services that are to be satisfied within two years. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

5. REVENUE AND OTHER INCOME AND GAINS *(Cont'd)*

	2018 ***HK$'000***	2017 *HK$'000*
Other income and gains:		
Interest income	**41,675**	15,844
Insurance claims	**1,039**	1,623
Subsidy income*	**212**	–
Fair value gains on financial assets at fair value through profit or loss	**153,777**	10,865
Gain on disposal of an investment fund at fair value through profit or loss	**–**	11,163
Management service income	**–**	247
Gain on disposal of interests in an associate (note 16)	**143**	–
Gain on disposal of items of property, plant and equipment	**4,683**	7,308
Foreign exchange gains, net	**–**	4,928
Write-back of impairment of an amount due from an associate	**13**	–
Write-back of impairment of other receivables	**144**	–
Others	**18,832**	4,869
	220,518	56,847

* There are no unfulfilled conditions or contingencies relating to this income.

6. FINANCE COSTS

	2018 ***HK$'000***	2017 *HK$'000*
Interest on bank borrowings	**169,452**	115,576
Interest on other borrowing	**18,764**	–
Interest on guaranteed notes	**24,864**	7,944
Interest on loans from related companies	**11,533**	–
Less: Interest capitalised in properties under development (note 17)	**(164,029)**	(105,030)
	60,584	18,490

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7. PROFIT BEFORE TAX

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

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Cost of properties sold		**201,931**	639,055
Cost of foundation piling and site investigation works		**2,557,712**	2,355,902
Cost of services rendered		**87,105**	95,050
Depreciation	14	**48,465**	61,388
Minimum lease payments under operating leases		**46,491**	45,719
Auditor's remuneration		**3,393**	3,180
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		**442,848**	461,982
Equity-settled share option expense		**160,060**	–
Pension scheme contributions		**15,814**	18,816
		618,722	480,798
Foreign exchange losses/(gains), net*		**42,069**	(4,928)
Impairment/(write-back of impairment) of other receivables*	23	**(115)**	1,029
Write-back of impairment of other receivables included in disposal groups classified as held for sale*		**(29)**	–
		(144)	1,029
Impairment of contract assets*	22	**2,048**	–
Write-off of other receivables*		**232**	–
Gain on disposal of items of property, plant and equipment*		**(4,683)**	(7,308)
Gain on disposal of interests in an associate*	16	**(143)**	–
Fair value losses/(gains), net			
Financial assets at fair value through profit or loss*		**(153,777)**	(10,865)
Derivative instrument – transaction not qualifying as hedge*		**–**	33,057
Gain on disposal of an investment fund at fair value through profit or loss*		**–**	(11,163)
Changes in fair value of investment properties	15	**–**	(23,175)
Impairment/(write-back of impairment) of an amount due from an associate*		**(13)**	13
Write-down of properties under development*		**452,903**	–
Rental income from operating leases of machinery		**(13,289)**	(16,560)
Rental income from investment properties		**(5,891)**	(7,407)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**843**	885

* These amounts are included in "Other expenses, net" or "Other income and gains" in the consolidated statement of profit or loss.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, 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	2017
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**673**	288
Independent non-executive directors	**1,619**	1,392
Other emoluments:		
Salaries, allowances and benefits in kind	**39,559**	47,948
Equity-settled share option expense	**114,806**	–
Pension scheme contributions	**63**	81
	156,720	49,709

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements and the report of the directors. The fair value of such options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

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8. DIRECTORS' REMUNERATION *(Cont'd)*

The remuneration paid or payable to each of the directors is as follows:

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option benefits *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
2018					
Executive directors:					
Mr. Chen Chao[1]	–	–	–	–	–
Mr. Sun Kin Ho Steven[2]	–	1,234	19,435	7	20,676
Mr. He Jiafu[2]	–	–	8,669	–	8,669
Mr. Fung Chiu Chak, Victor ("Mr. Fung")	–	25,410	10,165	18	35,593
Mr. Liu Junchun	–	6,159	10,165	11	16,335
Mr. Huang Qijun[3]	–	1,833	17,281	–	19,114
Mr. Guo Ke[4]	–	–	8,669	–	8,669
Mr. Zhang Peihua[5]	–	–	–	–	–
Mr. Mu Xianyi[6]	–	955	8,496	–	9,451
Mr. Wong Tai Lun Kenneth[7]	–	3,251	6,041	15	9,307
Mr. Mung Kin Keung[8]	–	–	–	–	–
Mr. Mung Hon Ting, Jackie[9]	–	717	3,726	12	4,455
Mr. Li Xiaoming[10]	–	–	3,726	–	3,726
	–	39,559	96,373	63	135,995
Non-executive directors:					
Mr. Tang King Shing[11]	336	–	4,066	–	4,402
Mr. Yang Han Hsiang[12]	119	–	4,623	–	4,742
Mr. Tang Kit[13]	218	–	1,987	–	2,205
	673	–	10,676	–	11,349
Independent non-executive directors:					
Mr. Fan Chor Ho	336	–	1,728	–	2,064
Mr. Tse Man Bun	336	–	1,728	–	2,064
Mr. Lung Chee Ming, George	336	–	1,728	–	2,064
Mr. Li Kit Chee	336	–	1,728	–	2,064
Mr. Leung Kai Cheung[14]	275	–	845	–	1,120
	1,619	–	7,757	–	9,376
Total	2,292	39,559	114,806	63	156,720

8. DIRECTORS' REMUNERATION *(Cont'd)*

The remuneration paid or payable to each of the directors is as follows: *(Cont'd)*

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option benefits *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
2017					
Executive directors:					
Mr. Huang Qijun[3]	–	925	–	–	925
Mr. Zhao Quan[16]	–	–	–	–	–
Mr. Fung	–	25,217	–	18	25,235
Mr. Chiu Chin Hung[17]	–	5,930	–	10	5,940
Mr. Lau Kin Fai[17]	–	5,855	–	10	5,865
Mr. Liu Junchun	–	3,600	–	20	3,620
Mr. Fan Ning[15]	–	1,265	–	–	1,265
Mr. Meng Yongtao[15]	–	1,195	–	–	1,195
Mr. Mu Xianyi[6]	–	–	–	–	–
Mr. Wong Tai Lun Kenneth[7]	–	3,711	–	18	3,729
Mr. Mung Hon Ting, Jackie[9]	–	250	–	5	255
Mr. Li Xiaoming[10]	–	–	–	–	–
	–	47,948	–	81	48,029
Non-executive directors:					
Mr. Tang King Shing[11]	144	–	–	–	144
Mr. Tang Kit[13]	144	–	–	–	144
	288	–	–	–	288
Independent non-executive directors:					
Mr. Fan Chor Ho	312	–	–	–	312
Mr. Tse Man Bun	312	–	–	–	312
Mr. Lung Chee Ming, George	312	–	–	–	312
Mr. Li Kit Chee	312	–	–	–	312
Mr. Leung Kai Cheung[14]	144	–	–	–	144
	1,392	–	–	–	1,392
Total	1,680	47,948	–	81	49,709

Notes to Financial Statements

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8. DIRECTORS' REMUNERATION *(Cont'd)*

Notes:

1 Mr. Chen Chao was appointed as an executive director with effect from 26 October 2018.

2 Mr. Sun Kin Ho Steven and Mr. He Jiafu were appointed as executive directors with effect from 3 August 2018.

3 Mr. Huang Qijun was appointed as an executive director with effect from 15 July 2017.

4 Mr. Guo Ke was appointed as an executive director with effect from 24 August 2018.

5 Mr. Zhang Peihua was appointed as an executive director with effect from 9 November 2018.

6 Mr. Mu Xianyi was appointed as an executive director with effect from 15 July 2017 and resigned with effect from 9 November 2018.

7 Mr. Wong Tai Lun Kenneth was appointed as an executive director with effect from 26 January 2017 and resigned with effect from 26 October 2018.

8 Mr. Mung Kin Keung was appointed as an executive director with effect from 1 February 2018 and resigned with effect from 3 August 2018.

9 Mr. Mung Hon Ting, Jackie was appointed as an executive director with effect from 1 October 2017 and resigned with effect from 3 August 2018.

10 Mr. Li Xiaoming was appointed as an executive director with effect from 29 December 2017 and resigned with effect from 24 August 2018.

11 Mr. Tang King Shing was appointed as a non-executive director with effect from 15 July 2017.

12 Mr. Yang Han Hsiang was appointed as a non-executive director with effect from 24 August 2018.

13 Mr. Tang Kit was appointed as a non-executive director with effect from 15 July 2017 and resigned with effect from 24 August 2018.

14 Mr. Leung Kai Cheung was appointed as an independent non-executive director with effect from 15 July 2017.

15 Mr. Fan Ning and Mr. Meng Yongtao resigned as executive directors with effect from 15 July 2017.

16 Mr. Zhao Quan resigned as an executive director with effect from 15 December 2017.

17 Mr. Chiu Chin Hung and Mr. Lau Kin Fai resigned as executive directors with effect from 15 July 2017.

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

Notes to Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2017: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2017: two) non-director highest paid employee are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**8,042**	8,869
Equity-settled share option expense	**3,865**	–
Pension scheme contributions	**18**	18
	11,925	8,887

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

	Numbers of employees 2018	Numbers of employees 2017
HK$4,000,000 to HK$4,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**–**	1
HK$11,500,001 to HK$12,000,000	**1**	–
	1	2

During the year, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employee's remuneration disclosures.

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10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere in the PRC have been calculated at the applicable tax rates prevailing in the areas in which the Group operates.

	2018	2017
	HK$'000	*HK$'000*
Current:		
Provision for tax in respect of profit for the year:		
PRC:		
Hong Kong	**21,086**	31,747
Elsewhere	**175,576**	14,175
	196,662	45,922
Overprovision in the prior years:		
PRC:		
Hong Kong	**(65)**	(60)
Elsewhere	**(381)**	(53,748)
	(446)	(53,808)
Deferred tax (note 31)	**(63,880)**	97,921
Total tax charge for the year	**132,336**	90,035

A reconciliation of the tax charge applicable to profit before tax at the statutory rates for the countries or regions in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rates is as follows:

	2018	2017
	HK$'000	*HK$'000*
Profit before tax	**493,232**	95,468
Tax at the statutory rates	**152,551**	13,208
Provision for land appreciation tax	**23,790**	10,807
Tax effect of land appreciation tax	**1,983**	53,350
Adjustments in respect of current tax of prior years	**(446)**	(53,808)
Income not subject to tax	**(125,176)**	(6,903)
Expenses not deductible for tax	**159,777**	28,568
Effect of withholding tax on the distributable profits of the Group's subsidiaries in Mainland China	**10,113**	(37,083)
Temporary difference arising from disposal groups held for sale	**(78,809)**	78,809
Tax losses utilised from prior years	**(16,970)**	(5,738)
Tax losses not recognised	**5,523**	8,825
Tax charge at the Group's effective rate	**132,336**	90,035

11. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

On 13 November 2017, Sparkle Key Limited (the "Shenyang Seller"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Hainan HNA Infrastructure Investment Group Co., Ltd. ("HNA Infrastructure"), a company established in the PRC with limited liability whose shares are listed on the Shanghai Stock Exchange and a subsidiary of HNA Group Co., Ltd., for disposal of the Shenyang Seller's entire equity interest in Tysan Shenyang at a cash consideration of RMB762 million (the "Shenyang Disposal"). Tysan Shenyang is a single project company established in the PRC engaging in the operation of a residential and commercial property development project, namely The Pinnacle, in Shenyang. It primarily derives its revenue from the sale of residential properties . Upon completion of the Shenyang Disposal, Tysan Shenyang will cease to be a subsidiary of the Company and the Company will no longer have any interest in the property development projects. As at 31 December 2017, the Shenyang Disposal had not been completed.

As at 31 December 2018, although some completion conditions, such as business licence update and change of legal representative, were completed, certain completion conditions, including but not limited to administrative procedures with the Ministry of Commerce for foreign investment enterprise and the receipt of consideration payment, originally expected to be completed in 2018, were delayed and remained not completed. The Group re-evaluated the progress and expects the Shenyang Disposal to be completed in 2019. Accordingly, the assets and liabilities of Tysan Shenyang as at 31 December 2018 were classified as disposal groups classified as held for sale.

The major classes of assets and liabilities classified as held for sale as at the end of the reporting period are as follows:

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Assets			
Property, plant and equipment	14	**1,967**	4,278
Investment properties	15	–	227,814
Available-for-sale investment		–	1,196
Deferred tax assets	31	–	960
Properties under development	17	–	14,864
Properties held for sale	19	**1,165,888**	1,460,278
Trade and retention receivables		**55**	496
Prepayments, deposits and other receivables		**3,505**	10,085
Tax prepaid		**7,766**	15,649
Cash and cash equivalents		**23,683**	448,337
Assets classified as held for sale		**1,202,864**	2,183,957

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11. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(Cont'd)*

The major classes of assets and liabilities classified as held for sale as at the end of the reporting period are as follows: (Cont'd)

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Liabilities			
Trade and retention payables and accruals (note a)		**118,246**	280,400
Contract liabilities (note c)		**1,167**	–
Other payables, deposits received and receipts in advance		**2,048**	34,824
Deposits received		**–**	54,428
Loans from related companies (note b)		**334,748**	–
Tax payable		**1,121**	5,428
Deferred tax liabilities	31	**1,942**	41,129
Liabilities directly associated with the assets classified as held for sale		**459,272**	416,209
Net assets directly associated with the disposal groups		**743,592**	1,767,748

Notes:

(a) Included in the balances as at 31 December 2018 are amount due to Tysan Shanghai of HK$2,118,000 and Tysan Tianjin of HK$198,000 which are unsecured, interest-free and have no fixed terms of repayment.

(b) As at 31 December 2018, the balances include a loan from Tysan Shanghai of HK$170,790,000 which is unsecured, bears interest at the interest rate published by The People's Bank of China ("PBOC") and is repayable on 29 September 2020, and a loan from Tysan Tianjin of HK$163,958,000 which is unsecured, bears interest at the interest rate published by PBOC and is repayable on 21 December 2019.

(c) Deposits received on properties sold as at 31 December 2018 which were previously included as "Deposits received" were reclassified to contract liabilities upon adoption of HKFRS 15.

As at 31 December 2017, the disposal groups classified as held for sale included the assets and liabilities of Tysan Shanghai, Tysan Tianjin and Tysan Shenyang. The disposals of Tysan Shanghai and Tysan Tianjin were completed on 30 April 2018, details of which were disclosed in note 42(a) to the financial statements.

Further details of the Shanghai Disposal (as defined in note 42(a)), Shenyang Disposal and Tianjin Disposal (as defined in note 42(a)) were disclosed in the Company's announcement dated 13 November 2017 and a circular dated 7 December 2017.

12. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends paid during the year:		
Final in respect of the financial year ended 31 December 2017 – HK10.0 cents (2016: HK10.0 cents) per ordinary share	**340,249**	113,416
Proposed final dividend:		
Final – Nil (2017: HK10.0 cents per ordinary share)	**–**	340,249

13. 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$360,908,000 (2017: HK$6,004,000), and the weighted average number of ordinary shares of 3,391,088,497 (2017: 2,380,256,154) in issue during the year. The weighted average number of shares in issue for the year ended 31 December 2017 used in the basic earnings per share calculation have been adjusted to reflect the effect of the rights issue completed in June 2017.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$360,908,000. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all dilutive potential ordinary shares of share options into ordinary shares during the year of 3,407,641,645. The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2017.

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Equipment and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Motor yacht HK$'000	Leasehold improvements HK$'000	Total HK$'000
2018							
Cost:							
At beginning of year	213,166	898,164	5,986	14,312	6,098	18,970	1,156,696
Additions	–	58,160	606	50	–	–	58,816
Disposals/write-off	–	(32,249)	(776)	(219)	(86)	(198)	(33,528)
Disposal of subsidiaries (note 42(c))	–	(93)	–	–	–	–	(93)
Exchange realignment	–	(4)	–	–	–	–	(4)
At 31 December 2018	213,166	923,978	5,816	14,143	6,012	18,772	1,181,887
Accumulated depreciation and impairment:							
At beginning of year	51,590	826,041	4,309	10,273	6,098	14,265	912,576
Depreciation provided during the year	7,788	36,737	540	1,514	–	1,886	48,465
Disposals/write-off	–	(32,226)	(616)	(219)	(86)	(198)	(33,345)
Disposal of subsidiaries (note 42(c))	–	(79)	–	–	–	–	(79)
At 31 December 2018	59,378	830,473	4,233	11,568	6,012	15,953	927,617
Net carrying amount:							
At 31 December 2018	153,788	93,505	1,583	2,575	–	2,819	254,270
At 31 December 2017	161,576	72,123	1,677	4,039	–	4,705	244,120

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14. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Land and buildings *HK$'000*	Equipment and machinery *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Motor yacht *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
2017							
Cost:							
At beginning of year	215,235	930,711	5,661	19,674	6,098	20,710	1,198,089
Additions	–	9,868	671	369	–	2,483	13,391
Disposals/write-off	–	(39,938)	(178)	(726)	–	(2,007)	(42,849)
Assets included in disposal groups classified as held for sale (note 11)	(2,227)	(2,692)	(182)	(5,405)	–	(2,458)	(12,964)
Exchange realignment	158	215	14	400	–	242	1,029
At 31 December 2017	213,166	898,164	5,986	14,312	6,098	18,970	1,156,696
Accumulated depreciation and impairment:							
At beginning of year	44,283	818,728	3,859	12,929	6,098	15,209	901,106
Depreciation provided during the year	7,871	48,567	664	1,998	–	2,288	61,388
Disposals/write-off	–	(39,121)	(119)	(676)	–	(2,007)	(41,923)
Assets included in disposal groups classified as held for sale (note 11)	(605)	(2,321)	(103)	(4,287)	–	(1,370)	(8,686)
Exchange realignment	41	188	8	309	–	145	691
At 31 December 2017	51,590	826,041	4,309	10,273	6,098	14,265	912,576
Net carrying amount:							
At 31 December 2017	161,576	72,123	1,677	4,039	–	4,705	244,120
At 31 December 2016	170,952	111,983	1,802	6,745	–	5,501	296,983

Certain of the Group's land and buildings were pledged to a bank as security for certain banking facilities granted to the Group (note 28).

Certain of the Group's equipment and machinery are leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements.

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15. INVESTMENT PROPERTIES

	2018 *HK$'000*	2017 *HK$'000*
Carrying amount at beginning of year	–	189,250
Fair value changes (note 7)	–	23,175
Assets included in disposal groups classified as held for sale (note 11)	–	(227,814)
Exchange realignment	–	15,389
Carrying amount at end of year	–	–

The Group's investment properties as at 31 December 2017, which were included in assets of disposal groups held for sale, consisted of commercial properties in Mainland China. The directors of the Company had determined that the investment properties were commercial properties, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2017 based on valuations performed by Vigers Appraisal and Consulting Limited ("Vigers"), a firm of independent professionally qualified property valuers, at HK$227,814,000. During the year ended 31 December 2018, the investment properties were disposed of upon the disposal of a subsidiary completed on 30 April 2018 (note 42(a)).

As at 31 December 2017, the investment properties were leased to third parties under operating leases, further summary details of which were included in note 36(a) to the financial statements.

Fair value hierarchy

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

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Recurring fair value measurement for:				
Commercial properties	–	–	227,814	227,814

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).

15. INVESTMENT PROPERTIES *(Cont'd)*

Fair value hierarchy *(Cont'd)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties *HK$'000*
Carrying amount at 1 January 2017	189,250
Fair value changes	23,175
Exchange realignment	15,389
Carrying amount at 31 December 2017 and 1 January 2018	227,814
Disposal of a subsidiary (note 42(a))	(235,810)
Exchange realignment	7,996
Carrying amount at 31 December 2018	–

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties as at 31 December 2017:

	Valuation techniques	Significant unobservable inputs	Range (weighted average) 2017
Commercial properties in Mainland China	Direct comparison approach	Property-specific adjustment rate	–38% to –9% (-20%)

As at 31 December 2017, the fair value of the Group's investment properties, included in assets of disposal groups classified as held for sale, was determined using the direct comparison approach by reference to the recent sales price of comparable properties in the open market, adjusted for size, location, floor level and quality of the Group's investment properties compared to the recent sales. The fair value measurement was positively correlated to the unobservable input that the higher the adjustment rate would resulted in a higher fair value.

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16. INTERESTS IN AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
Share of net assets	–	–
Amount due from an associate	–	399
	–	399
Less: Impairment	–	(399)
	–	–

The amount due from an associate was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group 2018	2017	Principal activity
Turbo Dragon Investment Limited ("Turbo Dragon")	Ordinary share	Hong Kong	–	50	Investment holding

On 14 December 2018, Tysan Investment Limited ("TIL"), a wholly-owned subsidiary of the Company, and Mr. Fung, who is an executive director of the Company, entered into a sale and purchase agreement pursuant to which TIL disposed of its 50% equity interest in Turbo Dragon, and assigned the shareholder's loan of HK$386,000 owed by Turbo Dragon to TIL, at a cash consideration of HK$143,000. The disposal was completed on 14 December 2018. Upon completion of the disposal, the Group did not have any interest in Turbo Dragon. The gain on the disposal of HK$143,000, representing the difference between the consideration of HK$143,000 and the Group's interest in Turbo Dragon as at the date of disposal of Nil, was recognised in the consolidated statement of profit or loss for the year.

17. PROPERTIES UNDER DEVELOPMENT

	2018 HK$'000	2017 HK$'000
Cost at beginning of year	**13,214,929**	14,286
Additions during the year	**322,694**	13,109,899
Transfer to properties held for sale (note 19)	**–**	(488)
Interest capitalised (note 6)	**164,029**	105,030
Assets included in disposal groups classified as held for sale (note 11)	**–**	(14,864)
Disposal of subsidiaries (note 42(b))	**(5,772,749)**	–
Exchange realignment	**–**	1,066
Cost at end of year	**7,928,903**	13,214,929
Less: provision	**(452,903)**	–
Balance at end of year	**7,476,000**	13,214,929

As at 31 December 2018, a write-down of HK$452,903,000 is recognised with reference to a valuation report performed by an independent property valuer based on expected future selling prices and costs necessary to complete the sale of the property.

As at 31 December 2018, the Group's properties under development with an aggregate carrying amount of HK$7,476,000,000 (2017: HK$13,214,929,000) were pledged to secure certain of the Group's bank loans (note 28).

18. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**19,058**	3,372
Spare parts and others	**13,254**	24,997
	32,312	28,369

19. PROPERTIES HELD FOR SALE

	2018 HK$'000	2017 HK$'000
At beginning of year	**–**	1,883,003
Additions	**–**	39,724
Transfer from properties under development (note 17)	**–**	488
Properties sold during the year	**–**	(579,109)
Assets included in disposal groups classified as held for sale (note 11)	**–**	(1,460,278)
Exchange realignment	**–**	116,172
At end of year	**–**	–

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20. CONSTRUCTION CONTRACTS

	2018 HK$'000	2017 HK$'000
Amounts due from customers for contract works	–	279,411
Amounts due to customers for contract works	–	(247,027)
	–	32,384
Contract costs incurred plus recognised profits less recognised losses to date	–	11,504,352
Less: Progress billings received and receivable	–	(11,471,968)
	–	32,384

21. TRADE AND RETENTION RECEIVABLES

The Group has established credit policies that follow local industry standards. The average normal credit periods offered to trade customers other than for retention receivables are within 30 days, and are subject to periodic review by management. In view of the aforementioned and the fact that the Group's trade and retention receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and retention receivable balances. Trade and retention receivables are non-interest-bearing.

	2018 HK$'000	2017 HK$'000
Trade and retention receivables	**167,164**	638,839
Impairment	**(29)**	(29)
	167,135	638,810

Included in the trade and retention receivables are amounts due from related companies of HK$32,291,000 (2017: HK$111,454,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

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

	2018 HK$'000	2017 HK$'000
Trade receivables:		
Within 90 days	**164,729**	401,869
91 to 180 days	**1,296**	12,637
181 to 360 days	**558**	2,154
Over 360 days	**552**	333
	167,135	416,993
Retention receivables	–	221,817
	167,135	638,810

21. TRADE AND RETENTION RECEIVABLES *(Cont'd)*

As at 31 December 2017, retention receivables, amounting to HK$178,063,000 were expected to be recovered within twelve months after the end of the reporting period.

The movements in the loss allowance for individual impairment of trade receivables are as follows:

	2018 *HK$'000*	2017 *HK$'000*
At beginning and end of year	**29**	29

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by service type, customer type and financial position of the customer). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

As at 31 December 2018

		Past due			
	Current	**Less than 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Expected credit losses rate	**0%**	**0%**	**0%**	**100%**	**0.02%**
Gross carrying amount (HK$'000)	**131,970**	**34,614**	**551**	**29**	**167,164**
Expected credit losses (HK$'000)	**–**	**–**	**–**	**29**	**29**

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of HK$29,000 with a gross carrying amount before provision of HK$29,000. The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties and the receivables from these customers were not expected to be fully recoverable.

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21. TRADE AND RETENTION RECEIVABLES *(Cont'd)*

Impairment under HKAS 39 for the year ended 31 December 2017 *(Cont'd)*

The ageing analysis of the trade and retention receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *HK$'000*
Neither past due nor impaired	604,715
1 to 90 days past due	19,816
91 to 270 days past due	13,955
More than 270 days past due	324
	638,810

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default. Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The carrying amounts of the trade and retention receivables approximated to their fair values.

22. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31 December 2018 ***HK$'000***	1 January 2018 *HK$'000*	31 December 2017 *HK$'000*
Contract assets arising from:			
Construction services	**924,249**	699,754	–
Others	**1,325**	596	–
	925,574	700,350	–
Impairment	**(2,048)**	–	–
	923,526	700,350	–

The excess of cumulative revenue recognised in profit or loss over the cumulative billings for construction services is recognised as contract assets. Included in contract assets for construction services are retention receivables. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the ongoing provision of construction services at the end of the year. The Group's trading terms and credit policy with customers are disclosed in note 21 to the financial statements.

22. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Cont'd)*

(a) Contract assets *(Cont'd)*

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	2018
	HK$'000
Within one year	**694,141**
More than one year	**229,385**
Total contract assets	**923,526**

The movements in the loss allowance for impairment of contract assets are as follows:

	2018
	HK$'000
At the beginning of the year	**–**
Impairment losses (note 7)	**2,048**
At end of year	**2,048**

Included in the above impairment allowance for contract assets is an allowance for an individually impaired contract asset of HK$2,048,000 (2017: Nil) which was considered in default due to indicators which showed that the Group was unlikely to receive the outstanding contractual amount in full. Except for the specific impairment allowance mentioned above, an impairment analysis is performed at each reporting date on the remaining contract assets using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases, the expected credit losses of contract assets were minimal as at 31 December 2018.

(b) Contract liabilities

	31 December 2018	1 January 2018
	HK$'000	*HK$'000*
Contract liabilities arising from:		
Construction services	**69,197**	167,378

The excess of cumulative billings for construction work over the cumulative work revenue recognised in profit or loss is recognised as contract liabilities.

Included in contract assets is an amount due from a related company of HK$1,254,000 (2017: Nil), which represents a retention receivable and is recoverable on credit terms similar to those offered to the major customers of the Group.

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2018 HK$'000	2017 HK$'000
Deposits for acquisition of items of property, plant and equipment		**335**	41
Advance payment for capital injection to a fund	(i)	**367,700**	–
Consideration receivable	(ii)	**581,597**	–
Due from Tysan Building Construction Company Limited	(iii)	**102**	–
Prepayments and deposits		**39,272**	23,283
Other receivables		**46,935**	22,230
Less: Impairment allowance		**(293)**	(5,207)
		1,035,648	40,347
Less: Prepayments, deposits and other receivables classified as non-current assets		**(2,197)**	(899)
		1,033,451	39,448

Notes:

(i) Balance represented advance payment for capital injection of HK$367,700,000 made during the year to Hengqin Zhonghang Equity Investment Fund Partnership (Limited Partnership) ("Hengqin Zhonghang"), of which the general partner and the initial limited partner are subsidiaries of HNA Group Co., Ltd. ("HNA Group"), which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company.

(ii) Balance represented remaining consideration receivables of RMB510,800,000 (equivalent to approximately HK$581,597,000) from Hainan HNA Shou Fu Investment Co., Ltd. ("HNA Shou Fu"), a subsidiary of HNA Group, for disposal of subsidiaries, details of which are set out in note 42(a) to the financial statements. The balance is fully settled to the Group in March 2019.

(iii) Balance represented an amount due from Tysan Building Construction Company Limited ("TBC"), a related company of the Company, of HK$102,000 which is unsecured, interest-free and repayable on demand. TBC is controlled by Mr. Fung.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Cont'd)*

The movements in loss allowance of other receivables are as follows:

	2018 **HK$'000**	2017 HK$'000
At beginning of year	**5,207**	3,888
Impairment losses recognised (note 7)	**–**	1,029
Impairment losses written back (note 7)	**(115)**	–
Impairment losses written off	**(411)**	–
Assets included in disposal groups classified as held for sale	**–**	(28)
Disposal of subsidiaries	**(4,180)**	–
Exchange realignment	**(208)**	318
At end of year	**293**	5,207

Expected credit losses on other receivables are estimated by applying a loss rate approach with reference to historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for as at 31 December 2018 was 0.05%.

As at 31 December 2018, except for other receivables of HK$293,000 (2017: HK$5,207,000) which were fully impaired, none of the above assets was either past due or impaired and the financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	**2018** **HK$'000**	2017 HK$'000
Unlisted investment funds, at fair value	(i)	**96,519**	738,865
Unlisted wealth management investment in a fund, at fair value	(ii)	**362,011**	–
Convertible bonds, at fair value	(iii)	**833,732**	–
		1,292,262	738,865

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24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Cont'd)*

Notes:

(i) During the year ended 31 December 2017, the Group entered into an amended and restated exempted limited partnership agreement with Hisea International Co., Ltd ("Hisea International") in relation to the formation of HKICIM Fund II, L.P. ("Fund II") and subscribed 12.07% of the committed fund size amounting to HK$728,000,000. Hisea International was a then wholly-owned subsidiary of HNA Holding Group Co., Ltd. ("HNA Holding Group"), which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company.

During the year ended 31 December 2018, the Group entered into an amended and restated exempted limited partnership agreement with Hisea International in relation to the formation of HKICIM Fund III, L.P. ("Fund III") and subscribed 16.57% of the committed fund size amounting to HK$633,160,000.

Fund II and Fund III (collectively, the "Funds") primarily invested in Total Thrive Holdings Limited ("Total Thrive") and Sky Hero Developments Limited ("Sky Hero") (which, through intermediate holding companies, holding two property development projects at Kai Tak, Kowloon). On 12 February 2018, the Funds entered into separate sale and purchase agreements in relation to the disposal of their entire equity interests in Total Thrive and Sky Hero with Shibo Investment Limited and Easco Investment Limited, wholly-owned subsidiaries of Henderson Land Development Company Limited. This disposal was completed on 14 February 2018. Further details of this disposal were set out in the Company's announcement dated 12 February 2018.

During the year, the Funds have returned the initial committed capital of HK$1,361,160,000 in total to the Group. The fair values of the Funds as at 31 December 2018 were HK$96,519,000 (2017: HK$738,865,000) which were estimated with reference to the fair values of the underlying assets held by the Funds and aggregate fair value gains of HK$103,280,000 (2017: HK$10,865,000) were resulted and credited to the consolidated statement of profit or loss during the year.

(ii) During the year, the Group purchased an unlisted investment fund from a third party financial institution at a cost of HK$345,246,000 and was classified as held for trading. As at 31 December 2018, the fair value of the unlisted investment fund was HK$362,011,000 based on the quoted prices from the fund manager and a fair value gain of HK$16,765,000 was resulted and credited to the consolidated statement of profit or loss during the year.

(iii) On 30 June 2018, the Group subscribed for 3-year unsecured convertible bonds of an aggregate principal amount of HK$800,000,000, which bear interest at 8% per annum and carry a conversion option to convert the convertible bonds into 95% of the issued and outstanding share capital of Holistic Capital Investment Limited ("Holistic"), an indirectly wholly-owned subsidiary of Hong Kong Airlines Limited ("HKA"). The Group has the right to convert the bonds to issued share capital of Holistic at any time prior to the maturity date and to request early redemption of the bonds at any time after 31 December 2018 if the potential investment has not been consummated on or before 31 December 2018. The convertible bonds are irrevocably and unconditionally guaranteed by HKA and Hong Kong Air Cargo Carrier Limited, a subsidiary of HKA and the sole shareholder of the convertible bonds issuer. The fair value of the convertible bonds as at 31 December 2018 was HK$833,732,000, based on an external valuation report prepared by Vigers, an independent professional valuer, and a fair value gain of HK$33,732,000 was resulted and credited to the consolidated statement of profit or loss during the year.

25. STRUCTURED DEPOSITS, CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND PLEDGED BANK BALANCES

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Structured deposits	(a)	**580,686**	–
Time deposits	(b)	**2,000,000**	250,000
Cash and bank balances			
– Non-pledged balances		**854,257**	2,077,460
– Pledged balances		**37,469**	41,414
– Restricted cash	(c)	**1,430,897**	–
Total cash and bank balances	(b)	**2,322,623**	2,118,874
Total time deposits and cash and bank balances		**4,322,623**	2,368,874
Less: Pledged and restricted bank balances			
– pledged for bank borrowings	28(d)	**(37,469)**	–
– pledged for performance bonds	38(a)	**–**	(41,414)
– restricted cash		**(1,430,897)**	–
		(1,468,366)	(41,414)
Cash and cash equivalents		**2,854,257**	2,327,460

	2018 **HK$'000**	2017 *HK$'000*
Denominated in:		
Renminbi ("RMB")	**592,846**	15,057
HK$	**4,310,089**	1,741,676
United States dollars ("US$")	**241**	611,764
Macao patacas ("MOP")	**80**	309
Other currencies	**53**	68
	4,903,309	2,368,874

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 authorised banks to conduct foreign exchange business.

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25. STRUCTURED DEPOSITS, CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND PLEDGED BANK BALANCES *(Cont'd)*

Notes:

(a) The structured deposits are wealth management products issued by a bank in Mainland China with fixed maturity dates and are classified as financial assets at fair value through profit or loss at 31 December 2018 as their contractual cash flows are not solely payments of principal and interest. The deposits are made for a period of 1 year. The interest rates on the structured deposits fluctuate based on changes in the London Interbank Offered Rate ("LIBOR"). The Group uses structured deposits primarily to enhance the return on investment.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between 6 months to 1 year (2017: 7 days to 3 months) depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

(c) In accordance with the terms and conditions set out in the relevant bank loan agreements, the cash are required to be deposited into a designated bank account and restricted to be used for the construction of the relevant properties.

26. TRADE AND RETENTION PAYABLES AND ACCRUALS

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Trade payables:		
Within 90 days	**370,655**	243,992
91 to 180 days	**879**	359
Over 180 days	**25**	204
	371,559	244,555
Retention payables	**74,348**	75,197
Accruals	**247,164**	261,716
	693,071	581,468

The trade and retention payables are non-interest-bearing and are normally settled on 90-day terms.

As at 31 December 2018, retention payables, amounting to HK$43,131,000 (2017: HK$63,240,000) were expected to be repayable within twelve months after the end of the reporting period.

27. OTHER PAYABLES, DEPOSITS RECEIVED AND RECEIPTS IN ADVANCE

As at 31 December 2017, included in receipts in advance are amounts received from related companies of HK$29,057,000.

Other payables are non-interest-bearing and have an average term of one month.

28. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	***HK$'000***	Effective interest rate (%)	Maturity	*HK$'000*
Secured:						
Bank loans	**2.6 – 5.4**	**2019 – 2022**	**3,163,628**	2.5 – 2.8	2018	5,805,434
Instalment loans	**2.6**	**2019 – 2031**	**70,664**	2.5	2018 – 2031	74,583
Total bank borrowings			**3,234,292**			5,880,017

	2018 ***HK$'000***	2017 HK$'000
Analysed into:		
Bank borrowings repayable:		
Within one year or on demand	**232,952**	5,809,375
In the second year	**4,053**	4,040
In the third to fifth years, inclusive	**2,947,458**	12,739
Beyond five years	**49,829**	53,863
	3,234,292	5,880,017
Portion due within one year, classified as current liabilities	**(232,952)**	(5,809,375)
Long term portion	**3,001,340**	70,642

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28. INTEREST-BEARING BANK BORROWINGS *(Cont'd)*

As at 31 December 2018, the Group's secured bank borrowings were secured by:

(a) mortgages over certain of land and buildings of the Group with a carrying amount of HK$153,505,000 (2017: HK$161,283,000) (note 14);

(b) mortgages over properties under development of the Group with an aggregate carrying amount of HK$7,476,000,000 (2017: HK$13,214,929,000) (note 17);

(c) charges over shares of certain subsidiaries of the Company;

(d) fixed charges over bank balances of the Group amounting to HK$37,469,000 (2017: Nil) (note 25); and

(e) floating charges over bank balances and prepayments and deposits of the Group amounting to HK$1,437,492,000 (2017: HK$5,713,000) and HK$4,840,000 (2017: Nil).

In addition, the Company has executed guarantees in respect of borrowing facilities granted to certain of its subsidiaries (note 38(a)).

All of the bank borrowings of the Group bear interest at floating interest rates. The carrying amounts of the bank borrowings approximate to their fair values.

The Group's bank borrowings are denominated in Hong Kong dollars.

29. INTEREST-BEARING OTHER BORROWING

	2018			2017		
	Effective interest rate (%)	**Maturity**	***HK$'000***	Effective interest rate (%)	Maturity	*HK$'000*
Unsecured:						
Other loan	**6.9**	**2020 – 2021**	**300,000**	–	–	–

	2018	2017
	HK$'000	*HK$'000*
Analysed into:		
Other borrowing repayable:		
In the third to fifth years, inclusive	**300,000**	–

The Group's other borrowing is unsecured, bears interest at 4.75% above the Hong Kong Interbank Offered Rate ("HIBOR") per annum and is repayable by 3 semi-annual equal instalments commencing from 9 January 2020. The Company has executed guarantees in respect of this borrowing. The other borrowing is denominated in Hong Kong dollars.

30. GUARANTEED NOTES

During the year ended 31 December 2017, Silverbell Asia Limited, a wholly-owned subsidiary of the Company, issued guaranteed notes with an aggregate principal amount of HK$305,000,000 (the "Guaranteed Notes") under a US$1,000,000,000 medium term note programme established by Silverbell Asia Limited on 7 April 2017.

The Guaranteed Notes bear interest at a fixed rate of 7% per annum payable semi-annually in arrears and will mature on 26 July 2020. The Guaranteed Notes are guaranteed by the Company.

The net proceeds of the Guaranteed Notes, after deducting the issue expenses of HK$10,849,000, were approximately HK$294,151,000.

	2018 ***HK$'000***	2017 *HK$'000*
At beginning of year	**295,343**	–
Issue of Guaranteed Notes	**–**	305,000
Issue expenses	**–**	(10,849)
Amortisation of issue expenses	**3,514**	1,192
Carrying amount at end of year	**298,857**	295,343

The effective interest rate of the Guaranteed Notes is 8.37% per annum.

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31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred Tax Liabilities

	Revaluation of investment properties *HK$'000*	Allowance in excess of related depreciation *HK$'000*	Withholding taxes *HK$'000*	Temporary difference arising from disposal groups classified as held for sale *HK$'000*	Total *HK$'000*
At 1 January 2017	(32,633)	(6,364)	(68,936)	–	(107,933)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(5,798)	1,825	37,083	(78,809)	(45,699)
Withholding tax paid on repatriation of earnings from subsidiaries in Mainland China	–	–	24,156	–	24,156
Liabilities included in disposal groups classified as held for sale (note 11)	41,129	–	–	–	41,129
Exchange realignment	(2,698)	–	(3,733)	–	(6,431)
At 31 December 2017 and 1 January 2018	**–**	**(4,539)**	**(11,430)**	**(78,809)**	**(94,778)**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**–**	**(1,792)**	**(10,113)**	**78,809**	**66,904**
Withholding tax paid on repatriation of earnings from subsidiaries in Mainland China	**–**	**–**	**10,527**	**–**	**10,527**
Exchange realignment	**–**	**–**	**119**	**–**	**119**
At 31 December 2018	**–**	**(6,331)**	**(10,897)**	**–**	**(17,228)**

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31. DEFERRED TAX *(Cont'd)*

Deferred Tax Assets

	Provision for land appreciation tax *HK$'000*	Depreciation in excess of related allowance *HK$'000*	Total *HK$'000*
At 1 January 2017	52,456	–	52,456
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(53,350)	1,128	(52,222)
Assets included in disposal groups classified as held for sale (note 11)	(960)	–	(960)
Exchange realignment	1,854	–	1,854
At 31 December 2017 and 1 January 2018	**–**	**1,128**	**1,128**
Deferred tax charged to the statement of profit or loss during the year (note 10)	**–**	**(761)**	**(761)**
At 31 December 2018	**–**	**367**	**367**

As at 31 December 2018, deferred tax assets of HK$1,942,000 (2017: deferred tax liabilities of HK$41,129,000 and deferred tax assets of HK$960,000) are included in assets/liabilities included in disposal groups classified as held for sale (note 11). During the year ended 31 December 2018, the relevant net deferred tax charged to the statement of profit or loss is HK$2,263,000 with a net exchange realignment of HK$1,331,000 while the deferred tax liabilities of HK$42,856,000 and deferred tax assets of HK$1,035,000 are disposed of upon the completion of Shanghai Disposal and Tianjin Disposal (note 42(a)).

The Group has tax losses arising in Hong Kong of HK$250,395,000 (2017: HK$311,696,000) 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 subsidiaries 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.

Pursuant to the Corporate Income Tax ("CIT") Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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

32. SHARE CAPITAL

Shares

	2018 *HK$'000*	2017 HK$'000
Authorised:		
6,000,000,000 ordinary shares of HK$0.10 each	**600,000**	200,000
Issued and fully paid:		
3,364,835,709 (2017: 3,402,497,709) ordinary shares of HK$0.10 each	**336,483**	340,249

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32. SHARE CAPITAL *(Cont'd)*

Shares *(Cont'd)*

Pursuant to an ordinary resolution passed at the special general meeting of the Company on 18 May 2017, the authorised share capital of the Company was increased from HK$200,000,000 divided into 2,000,000,000 of HK$0.10 each to HK$600,000,000 divided into 6,000,000,000 of HK$0.10 each by the creation of 4,000,000,000 additional ordinary shares of HK$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

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

	Notes	**Number of shares in issue**	**Share capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 January 2017		1,134,165,903	113,416	1,032,150	1,145,566
Issue of shares	(a)	2,268,331,806	226,833	9,027,961	9,254,794
Share issue expenses		–	–	(4,174)	(4,174)
At 31 December 2017 and 1 January 2018		**3,402,497,709**	**340,249**	**10,055,937**	**10,396,186**
Shares repurchased	(b)	**(38,862,000)**	**(3,886)**	**(54,129)**	**(58,015)**
Share options exercised	(c)	**1,200,000**	**120**	**2,481**	**2,601**
At 31 December 2018		**3,364,835,709**	**336,483**	**10,004,289**	**10,340,772**

Notes:

(a) In June 2017, the Company completed the rights issue of 2,268,331,806 ordinary shares of HK$0.10 each on the basis of two rights shares for every one share held of the Company at a subscription price of HK$4.08 per rights share (the "Rights Issue"). The net proceeds before share issue expenses from the Rights Issue were approximately HK$2,323,624,000, after setting off an amount of HK$6,931,170,000 (being the subscription price receivable for rights shares subscribed by the Company's immediate holding company) against the amount owed by the Company to the immediate holding company.

(b) During the year ended 31 December 2018, the Company purchased 38,862,000 of its own ordinary shares on the Hong Kong Stock Exchange for a total consideration of HK$58,015,000. The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value of approximately HK$3,886,000. The premium paid on the purchase of the shares of HK$54,129,000, including transaction costs, has been charged to the share premium of the Company.

(c) The subscription rights attaching to 1,200,000 share options were exercised at the subscription price of HK$1.75 per share (note 33), resulting in the issue of 1,200,000 shares for a total consideration of HK$2,100,000. An amount of HK$501,000 was transferred from share option reserve to share capital and share premium upon exercise of the share options.

Share Options

Details of the Company's share option scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

On 8 August 2012, the Company adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares of the Company in issue at any time. No share option has been granted under the Share Option Scheme during the year.

A summary of the Share Option Scheme of the Company is as follows:

Purpose	To enable the board of directors (the "Board") to grant options to reward eligible participants who, in the sole and absolute opinion of the Board, would contribute or benefit or had contributed or benefited to the business, development and growth (and any other aspect whatsoever) of the Group and/or any of the entities in which any member of the Group holds any equity interest, and to provide incentives to eligible participants to perform their best in achieving the goals of the Group in the interests and benefits of the Company and the shareholders of the Company as a whole, while at the same time allowing the eligible participants to share the fruits of the Company's business achieved through their effort and contribution, as well as to enable the Group to recruit high quality employees who are valuable to the management and long term business and financial goals and success of the Group.
Eligible participants	A person who is entitled to participate in the Share Option Scheme, being any full-time or part-time employees, executives, officers or directors (including executive, non-executive and independent non-executive directors) of the Company or any of the subsidiaries or any of the interested entities and any contractors, advisors, consultants, agents, suppliers or providers (of, for example, goods, plants and machineries, materials or services), customers, distributors, business ally or joint venture partners of the Group who, in the sole and absolute opinion of the Board, will contribute or benefit or have contributed or benefited to the business, development and growth (and any other aspect whatsoever) of the Company and/or any of the subsidiaries and/or any of the interested entities.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	87,266,590 ordinary shares and 10% of the issued share capital, on the basis of 872,665,903 shares in issue as at the date of the Company's special general meeting on 8 August 2012.
Maximum entitlement of each participant	Shall not exceed 1% of the issued share capital of the Company in any 12-month period.
Period within which the securities must be taken up under an option	To be determined by the Board on a case-to-case basis at its absolute discretion and notified to the grantee thereof, provided that the expiry date of the said period shall not be later than ten (10) years from the date of grant of the option concerned.

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33. SHARE OPTION SCHEME *(Cont'd)*

A summary of the Share Option Scheme of the Company is as follows: *(Cont'd)*

Minimum period for which an option must be held before it can be exercised	To be determined at the discretion of the Board.
Amount payable on acceptance	Nil.
Basis for determining the exercise price	In respect of any particular option: the price per share payable to the Company on the exercise of the option as may be decided upon and prescribed by the Board on a case-to-case basis, bearing in mind the purpose of the Share Option Scheme, in its absolute discretion upon the grant of the option, provided that such exercise price shall not be less than the highest of the following: (a) the nominal value of a share; (b) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option, which must be a business day; and (c) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant of the option, or where applicable, the exercise price for the option concerned (referred to (a) to (c) above) as may be adjusted by the Board from time to time pursuant to the rules of the Share Option Scheme concerning adjustments of, inter alia, the exercise price upon the occurrence of any relevant event as defined in the Share Option Scheme.
The remaining life of the scheme	The Share Option Scheme remains in force for a period of ten (10) years commencing from 8 August 2012 and expiring at the close of business hours of the Company on 7 August 2022.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

33. SHARE OPTION SCHEME *(Cont'd)*

The following share options were outstanding under the Share Option Scheme during the year:

	2018 Weighted average exercise price *HK$ per share*	2018 Number of options *'000*
At beginning of year	–	–
Granted during the year	1.78	385,830
Exercised during the year	1.75	(1,200)
Exercised but shares not yet allotted during the year	1.75	(1,200)
Lapsed during the year	1.75	(67,300)
At end of year	1.79	316,130

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018 Number of options *'000*	Exercise price* *HK$ per share*	Exercise periods
99,070	1.75	20-7-2018 to 19-7-2028
97,370	1.75	1-1-2019 to 19-7-2028
42,760	1.75	1-1-2020 to 19-7-2028
37,405	1.90	18-10-2018 to 17-10-2028
37,405	1.90	1-1-2019 to 17-10-2028
2,120	1.90	1-1-2020 to 17-10-2028
316,130		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was HK$201,500,000 (HK$0.45 to HK$0.59 each), of which the Group recognised a share option expense of HK$160,060,000 during the year.

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33. SHARE OPTION SCHEME *(Cont'd)*

The fair value of equity-settled share options granted during the year ended 31 December 2018 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the major inputs to the model used:

Date of grant	20 July 2018	18 October 2018
Dividend yield (%)	5.4	5.5
Expected volatility (%)	50	50
Risk-free interest rate (%)	2.155	2.424
Expected life of option (year)	10	10
Weighted average share price (HK$ per share)	1.75	1.90

During the year, a total of 67,300,000 share options lapsed upon resignation of the relevant directors and employees.

1,200,000 share options exercised during the year resulted in the issue of 1,200,000 ordinary shares of the Company and new share capital of HK$120,000 and share premium of HK$2,481,000 (before issue expenses), as further detailed in note 32 to the financial statements. The consideration of HK$2,100,000 received for another 1,200,000 share options exercised during the year was recorded as receipt in advance as corresponding ordinary shares are allotted subsequent to the end of the reporting period.

At the end of the reporting period, the Company had 316,130,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 316,130,000 additional ordinary shares of the Company and additional share capital of HK$31,613,000 and share premium of HK$533,154,000 before issue expenses.

Save as disclosed above, 67,300,000 share options granted under the Share Option Scheme lapsed during the year ended 31 December 2018 and the respective share option reserve of HK$10,284,000 was released.

Subsequent to the end of the reporting period, 1,800,000 share options were cancelled and 4,720,000 share options lapsed under the Share Option Scheme.

At the date of approval of these financial statements, the Company had 309,610,000 share options outstanding under the Share Option Scheme, which represented approximately 9.2% of the Company's shares in issue as at that date.

34. 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.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are registered in the PRC has been transferred to statutory reserves which are restricted as to use.

35. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in Liabilities Arising from Financing Activities

2018

	Trade and retention payables and accruals *HK$'000*	Other payables, deposits received and receipt in advance *HK$'000*	Interest-bearing bank borrowings *HK$'000*	Interest-bearing other borrowing *HK$'000*	Guaranteed notes *HK$'000*	Trade and retention payables and accruals included in disposal groups *HK$'000*
At 1 January 2018	581,468	34,395	5,880,017	–	295,343	280,400
Changes from financing activities	(196,445)	2,100	(2,651,353)	300,000	–	(17,595)
Interest expenses	45,537	–	–	–	3,514	11,533
Interest capitalised	158,401	–	5,628	–	–	–
Changes classified as operating cash flows	119,216	(26,662)	–	–	–	(159,191)
Changes classified as investing cash flows	(15,106)	(6,078)	–	–	–	3,357
Exchange realignment	–	–	–	–	–	(258)
At 31 December 2018	693,071	3,755	3,234,292	300,000	298,857	118,246

2017

	Trade and retention payables and accruals *HK$'000*	Interest-bearing bank borrowings *HK$'000*	Guaranteed notes *HK$'000*
At 1 January 2017	977,666	475,210	–
Changes from financing activities	(106,992)	5,404,130	294,151
Interest expenses	16,621	677	1,192
Interest capitalised	105,030	–	–
Changes classified as operating cash flows	(129,287)	–	–
Changes classified as investing cash flows	(1,248)	–	–
Liabilities directly associated with the disposal groups classified as held for sale	(280,400)	–	–
Foreign exchange movement	78	–	–
At 31 December 2017	581,468	5,880,017	295,343

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36. OPERATING LEASE ARRANGEMENTS

(a) As Lessor

The Group leases certain of its machinery (note 14), its investment properties (note 15) and properties held for sale (note 19) under operating lease arrangements, with leases negotiated for terms ranging from one to seventy-five months. The terms of the leases generally also require the tenants and customers to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants and customers falling due as follows:

	2018 *HK$'000*	2017 *HK$'000*
Within one year	**8,171**	15,389
In the second to fifth years, inclusive	**4,878**	20,683
	13,049	36,072

(b) As Lessee

The Group leases certain of its office properties, warehouses, staff quarters and certain machinery under operating lease arrangements, with leases negotiated for terms ranging from one to thirty-six months.

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	**29,874**	28,491
In the second to fifth years, inclusive	**30,219**	14,073
	60,093	42,564

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 **HK$'000**	2017 *HK$'000*
Property, plant and equipment:		
– contracted, but not provided for	**692**	23,041
Construction works relating to properties under development		
– contracted, but not provided for	**20,916**	68,022
Capital contributions to an investment fund		
– contracted, but not provided for	**–**	633,160

38. CONTINGENT LIABILITIES

(a) 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 in respect of performance bonds in relation to subsidiaries	**325,219**	255,782

As at 31 December 2017, performance bonds of HK$36,980,000 were also supported by pledged bank balances of HK$41,414,000 (note 25).

(b) As at 31 December 2018, the Group provided guarantees in respect of mortgage facilities granted by Shenyang Housing Fund Management Center relating to the mortgage loans arranged for purchases of certain properties developed by a subsidiary of the Company and the outstanding mortgage loans under these guarantees amounted to HK$4,645,000 (2017: HK$21,908,000).

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of the relevant ownership certificates.

The fair value of the guarantees is not significant and the directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalty and therefore no provision has been made for these guarantees in the financial statements.

39. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and performance bonds are included in notes 28 and 38 to the financial statements, respectively.

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40. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) Outstanding balances with related parties

Details of the Group's balances with its associate and related companies as at the end of the reporting period are included in note 16, and notes 11, 21, 22 and 23, respectively, to the financial statements.

Particulars of amounts due from related companies, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance, are as follows:

Name	2018	Maximum amount outstanding during the year	2017
	HK$'000	*HK$'000*	*HK$'000*
Tysan Building Construction Company Limited	**1,460**	**5,111**	3,748
HKICIM Fund III, L.P.	**24,462**	**24,462**	–
HKICIM Fund V, L.P. ("Fund V")	**7,726**	**19,726**	–
Denco Properties Limited ("Denco")	**–**	**80,712**	49,815
Hongkong Island Construction Properties Co., Limited ("HKIC")	**–**	**78,273**	57,891
HNA Shou Fu	**581,597**	**632,626**	–
Hengqin Zhonghang	**367,700**	**367,700**	–
	982,945		111,454

TBC is controlled by Mr. Fung. Fund III and Fund V are non-wholly-owned subsidiaries of HNA Holding Group, which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company. Prior to the disposal of Total Thrive and Sky Hero, holding companies of Denco and HKIC, by Fund II and Fund III respectively on 14 February 2018 as detailed in note 24(a) to the financial statements, Denco and HKIC were both non-wholly-owned subsidiaries of HNA Group.

(b) Compensation of key management personnel of the Group

	2018	2017
	HK$'000	*HK$'000*
Short term employee benefits	**69,750**	72,738
Equity-settled share option expense	**133,554**	–
Post-employment benefits	**159**	176
Total compensation paid to key management personnel	**203,463**	72,914

Further details of directors' remuneration are included in note 8 to the financial statements.

40. RELATED PARTY TRANSACTIONS *(Cont'd)*

(c) Other transactions with related companies of the Group:

(1) Contracted and subcontracted works with related companies

(i) During the year ended 31 December 2018, TBC subcontracted rental and engineering works relating to tower cranes of approximately HK$32,000 (2017: HK$569,000) to the Group.

(ii) During the year ended 31 December 2018, the Group contracted building and construction works of approximately HK$5,915,000 (2017: Nil) to TBC.

(iii) During the year ended 31 December 2017, the Group subcontracted building services coordination works of approximately HK$300,000 to Tysan Project Management Limited ("TPML", a company ultimately controlled by Mr. Fung).

(iv) During the year ended 31 December 2017, TBC subcontracted foundation and site investigation works of approximately HK$1,225,000 to the Group.

(v) During the year ended 31 December 2017, Denco subcontracted foundation works of approximately HK$342,880,000 to the Group.

(vi) During the year ended 31 December 2017, HKIC subcontracted foundation works of approximately HK$443,800,000 to the Group.

(2) During the year ended 31 December 2018, the Group recorded a management fee income of HK$60,300,000 (2017: HK$6,443,000) from Fund II, HK$37,166,000 (2017: Nil) from Fund III and HK$24,740,000 (2017: Nil) from Fund V, respectively.

(3) During the period from 1 January 2018 to 14 February 2018, the Group has a project development income of approximately HK$5,518,000 (2017: HK$2,383,000) and HK$4,910,000 (2017: HK$2,982,000) from Denco and HKIC, respectively.

(4) During the year ended 31 December 2018, the Group was charged HK$58,000 (2017: HK$94,000) and HK$263,000 (2017: HK$512,000) by Hainan Marine Construction Project Management Contracting Co., Limited ("Hainan Marine Construction") for provision of BIM modeling services and BIM platform, respectively.

Hainan Marine Construction is a non-wholly-owned subsidiary of HNA Group, which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company.

(5) During the period from 1 May 2018 to 31 December 2018, interest expenses of HK$5,644,000 and HK$5,889,000 were charged by Tysan Shanghai and Tysan Tianjin, respectively, according to the terms detailed in note 11(b).

Upon completion of Shanghai Disposal and Tianjin Disposal to HNA Shou Fu on 30 April 2018, Tysan Shanghai and Tysan Tianjin became related companies of the Group.

(6) During the year ended 31 December 2018, the Group disposed items of property, plant and equipment of aggregate carrying amount of HK$39,000 at a cash consideration of HK$19,000 to Tremend Yield Limited, a company ultimately controlled by Mr. Fung.

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40. RELATED PARTY TRANSACTIONS *(Cont'd)*

(c) Other transactions with related companies of the Group: *(Cont'd)*

(7) During the year ended 31 December 2017, the Group subcontracted certain renovation works of its office properties of approximately HK$2,529,000 to TPML.

(8) During the year ended 31 December 2017, the Group charged TBC, Tysan Engineering (H.K.) Company Limited ("TEHK") and Cando Trading Limited ("Cando"), rental charges of HK$416,000, HK$121,000 and HK$101,000, respectively, and management fee of HK$162,000, HK$47,000 and HK$38,000, respectively. TBC, TEHK and Cando are ultimately controlled by Mr. Fung.

These transactions were entered into by the Group and its related companies in accordance with the terms of the respective agreements.

The related party transactions in respect of items (c)(1), (c)(2), (c)(3) and (c)(4) above, the disposals as detailed in notes 16, 42(a) and 42(d) and the acquisition as detailed in note 41 to the financial statements also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

41. ACQUISITION OF ADDITIONAL INTERESTS IN A SUBSIDIARY

On 19 April 2016, the Company, Fortunate Pool Limited ("Fortunate Pool") and Mr. Fung entered into a sale and purchase agreement, pursuant to which the Company agreed to purchase and Fortunate Pool agreed to sell 40% equity interests in TFHKL, a then non-wholly-owned subsidiary of the Company (the "Foundation Transaction"). Fortunate Pool, which is wholly-owned by Mr. Fung, is the non-controlling shareholder of the 40% issued shares of TFHKL.

The Foundation Transaction took place in two phases. Phase 1 of the Foundation Transaction was completed on 4 July 2016 when the Company paid cash of HK$732,192,000 to acquire 35% equity interest in TFHKL ("Phase 1 Transaction"). Immediately after the completion of Phase 1 Transaction, the Company's equity interest in TFHKL increased from 60% to 95%. Such transaction was accounted for as an equity transaction and the debit difference of HK$694,919,000 between the consideration of HK$732,192,000 and the carrying amount of the non-controlling interest of HK$37,273,000 was recorded in the retained profits in the equity during the period ended 31 December 2016.

As at 31 December 2016, Phase 2 of the Foundation Transaction was accounted for as a forward contract to acquire the shares held by the non-controlling interests in a subsidiary. The consideration payable of HK$104,598,000 was recognised as other payables and the corresponding debit was made to the forward equity contract in the equity.

Phase 2 of the Foundation Transaction, in which the Company paid cash of HK$104,598,000 to acquire the remaining 5% equity interest in TFHKL ("Phase 2 Transaction"), was completed on 27 April 2017. Immediately following the completion of Phase 2 Transaction, TFHKL became a wholly-owned subsidiary of the Company. Such transaction was accounted for as an equity transaction and the difference of HK$97,820,000 between the consideration of HK$104,598,000 and the carrying amount of the non-controlling interest of HK$6,778,000 was debited in the retained profits in the equity during the year.

Further details of the Foundation Transaction are set out in the Company's announcements dated 19 April 2016, 30 June 2016, 4 July 2016 and 27 April 2017, and a circular dated 23 May 2016.

42. DISPOSAL OF SUBSIDIARIES

(a) Disposal of Tysan Shanghai and Tysan Tianjin

On 13 November 2017, Great Regent Investments Limited, Shanghai Changning Duncan Property Consulting Company Limited, Red Shine Investment Limited and Carriway Limited (collectively, the "Shanghai Sellers"), each being a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with HNA Shou Fu, a subsidiary of HNA Group which in turn is an intermediate holding company of HNA Finance I, the then controlling shareholder of the Company, for disposal of the Shanghai Sellers' entire equity interests in Tysan Shanghai at a cash consideration of RMB585.8 million (the "Shanghai Disposal"). Tysan Shanghai is a single project company established in the PRC engaging in the operation of a residential and commercial property development project, namely The Waterfront, in Shanghai. It primarily derives its revenue from the sales of residential property and to a relatively minor extent, leasing of property. The Shanghai Disposal was completed on 30 April 2018.

On 13 November 2017, Great Prosper Limited (the "Tianjin Seller"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with HNA Shou Fu for disposal of Tianjin Seller's entire equity interest in Tysan Tianjin at a cash consideration of RMB435.8 million (the "Tianjin Disposal"). Tysan Tianjin is a single project company established in the PRC engaging in the operation of a residential and commercial property development project, namely The Riverside, in Tianjin. It primarily derives its revenue from the sales of residential property. The Tianjin Disposal was completed on 30 April 2018.

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42. DISPOSAL OF SUBSIDIARIES *(Cont'd)*

(a) Disposal of Tysan Shanghai and Tysan Tianjin *(Cont'd)*

	HK$'000
Net assets disposed of:	
Property, plant and equipment	2,291
Investment properties	235,810
Available-for-sale investment	1,239
Deferred tax assets	1,035
Loans to the Group	364,119
Properties held for sale	35,462
Properties under development	15,137
Amounts due from the Group	21,777
Trade receivables	421
Prepayments, deposits and other receivables	4,991
Cash and cash equivalents	321,209
Trade payables and accruals	(5,279)
Deposits received and other payables	(3,104)
Tax payable	(5,498)
Deferred tax liabilities	(42,856)
	946,754
Release of exchange fluctuation reserve	(72,962)
Release of statutory reserve	(48,750)
Gains on disposal of subsidiaries credited to profit or loss	440,209
	1,265,251
Satisfied by:	
Cash consideration	632,625
Other receivables	632,626
Total consideration	1,265,251

An analysis of the net inflow of cash and cash equivalents in respect of the Shanghai Disposal and Tianjin Disposal during the year was as follows:

Cash consideration	632,625
Cash and cash equivalents disposed of	(321,209)
Net inflow of cash and cash equivalents in respect of the Shanghai Disposal and Tianjin Disposal	311,416

42. DISPOSAL OF SUBSIDIARIES *(Cont'd)*

(b) Disposal of Onwards Asia Limited

On 16 May 2018, Omnilink Assets Limited ("Omnilink"), a wholly-owned subsidiary of the Company, disposed of its entire equity interest in Onwards Asia Limited and assigned all amounts which Onwards Asia Limited owes to Omnilink as at that date to an independent party, Fabulous New Limited, at cash consideration of HK$6,348,343,000 (the "Onwards Asia Disposal"). The principal assets of Onwards Asia Limited comprise all the issued share capital of Top Genius Holdings Limited, which engages in property development project at Kai Tak, Kowloon.

	HK$'000
Net assets disposed of:	
Properties under development	5,772,749
Cash and cash equivalents	4,081
Trade and retention payables and accruals	(14,893)
Loan from the Group	(5,820,366)
	(58,429)
Loan from the Group assigned	5,820,366
Gain on disposal of a subsidiary credited to profit or loss	586,406
	6,348,343
Satisfied by:	
Cash consideration	6,348,343

An analysis of the net inflow of cash and cash equivalents in respect of the Onwards Asia Disposal during the year was as follows:

Cash consideration	6,348,343
Cash and cash equivalents disposed of	(4,081)
Net inflow of cash and cash equivalents in respect of the Onwards Asia Disposal	6,344,262

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42. DISPOSAL OF SUBSIDIARIES *(Cont'd)*

(c) Disposal of Fund House Limited

On 2 October 2018, Beneficial Enterprises Limited, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with an independent third party to dispose of its entire equity interest in Fund House Limited and assigned all amounts which Fund House Limited owes to Beneficial Enterprises Limited, at cash consideration of HK$17,000 (the "Fund House Disposal"). The principal assets of Fund House Limited comprise all issued share capital of Duncan Property Management (Shanghai) Co., Limited, which engages in the provision of property management services in the PRC. The Fund House Disposal was completed on 12 October 2018.

	HK$'000
Net assets disposed of:	
Property, plant and equipment	14
Trade receivables	308
Prepayments, deposits and other receivables	52
Cash and cash equivalents	5,976
Trade payables and accruals	(213)
Other payables, deposits received and receipt in advance	(6,078)
Due to a related company	(2,825)
Loan from the Group	(10,939)
	(13,705)
Loan from the Group assigned	10,939
Release of exchange fluctuation reserve	(1,009)
Release of statutory reserve	(364)
Gain on disposal of subsidiaries credited to profit or loss	4,156
	17
Satisfied by:	
Cash consideration	17

An analysis of the net outflow of cash and cash equivalents in respect of the Fund House Disposal during the year was as follows:

Cash consideration	17
Cash and cash equivalents disposed of	(5,976)
Net outflow of cash and cash equivalents in respect of the Fund House Disposal	(5,959)

42. DISPOSAL OF SUBSIDIARIES *(Cont'd)*

(d) Disposal of Upwealth International Limited and Fortune Fortress Limited

On 14 December 2018, TIL disposed of its entire equity interests in Upwealth International Limited and Fortune Fortress Limited and assigned all amounts which Upwealth International Limited and Fortune Fortress Limited owing to TIL as at that date to Mr. Fung, at a cash consideration of HK$272,000 (the "Upwealth Disposal") and HK$92,000 (the "Fortune Fortress Disposal"), respectively. Upwealth International Limited and Fortune Fortress Limited were both an investment holding company which held a golf club membership.

	HK$'000
Net assets disposed of:	
Other assets	1,080
Loan from the Group	(1,281)
	(201)
Loan from the Group assigned	1,281
Loss on disposal of subsidiaries debited to profit or loss	(716)
	364
Satisfied by:	
Cash consideration	364

An analysis of the net inflow of cash and cash equivalents in respect of the Upwealth Disposal and Fortune Fortress Disposal during the year was as follows:

Cash consideration and inflow of cash and cash equivalents in respect of the Upwealth Disposal and Fortune Fortress Disposal	364

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43. 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

2018

	Financial assets at amortised costs *HK$'000*	**Financial assets at fair value through profit or loss – held for trading** *HK$'000*	**Total** *HK$'000*
Financial assets at fair value through profit and loss	**–**	**1,292,262**	**1,292,262**
Trade receivables	**167,135**	**–**	**167,135**
Other receivables	**628,341**	**–**	**628,341**
Structured deposits	**–**	**580,686**	**580,686**
Pledged bank balances	**37,469**	**–**	**37,469**
Restricted cash	**1,430,897**	**–**	**1,430,897**
Cash and cash equivalents	**2,854,257**	**–**	**2,854,257**
	5,118,099	**1,872,948**	**6,991,047**

2017

	Loans and receivables *HK$'000*	Financial asset at fair value through profit or loss *HK$'000*	Total *HK$'000*
Financial asset at fair value through profit and loss	–	738,865	738,865
Trade and retention receivables	638,810	–	638,810
Other receivables	17,023	–	17,023
Pledged bank balances	41,414	–	41,414
Cash and cash equivalents	2,327,460	–	2,327,460
	3,024,707	738,865	3,763,572

43. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Cont'd)*

Financial liabilities

	2018 Financial liabilities at amortised cost *HK$'000*	2017 Financial liabilities at amortised cost *HK$'000*
Trade and retention payables	**445,907**	319,752
Other payables	**918**	4,402
Interest-bearing bank borrowings	**3,234,292**	5,880,017
Interest-bearing other borrowing	**300,000**	–
Guaranteed notes	**298,857**	295,343
	4,279,974	6,499,514

44. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value as at 31 December 2018 and 2017:

	2018 Fair value measurement using				2017 Fair value measurement using			
	Quoted price in active markets (Level 1) *HK$'000*	**Significant observable inputs (Level 2)** *HK$'000*	**Significant unobservable inputs (Level 3)** *HK$'000*	**Total** *HK$'000*	Quoted price in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Financial assets at fair value through profit or loss	**–**	**458,530**	**833,732**	**1,292,262**	–	–	738,865	738,865
Structured deposits	**–**	**580,686**	**–**	**580,686**	–	–	–	–
	–	**1,039,216**	**833,732**	**1,872,948**	–	–	738,865	738,865

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 (2017: Nil).

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44. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Cont'd)*

As at 31 December 2018, financial assets at fair value through profit or loss at Level 2 included unlisted investment funds (i.e. Fund II and Fund III) of HK$96,519,000 (2017: HK$738,865,000) and an unlisted wealth management investment in a fund of HK$362,011,000 (2017: Nil). The fair values of unlisted investment funds were estimated with reference to the fair values of the underlying assets held by Fund II and Fund III (i.e. net asset method). The fair value of the unlisted wealth management investment in a fund was based on the quoted prices from the fund manager.

The fair value of structured deposits has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of structured deposits approximates to their carrying amounts as at the end of the reporting period.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Unlisted convertible bonds *HK$'000*	**Unlisted investment funds** *HK$'000*	**Total** *HK$'000*
Carrying amount at 1 January 2017	–	–	–
Additions	–	1,328,600	1,328,600
Disposal of an investment fund	–	(600,600)	(600,600)
Fair value gain	–	10,865	10,865
Carrying amount at 31 December 2017 and 1 January 2018	**–**	**738,865**	**738,865**
Additions	**800,000**	**633,160**	**1,433,160**
Return of investment	**–**	**(1,361,160)**	**(1,361,160)**
Investment income	**–**	**(17,626)**	**(17,626)**
Fair value gain	**33,732**	**103,280**	**137,012**
Transfer to Level 2	**–**	**(96,519)**	**(96,519)**
Carrying amount at 31 December 2018	**833,732**	**–**	**833,732**

The fair value of unlisted convertible bonds was based on an external valuation report prepared by Vigers by using multiple valuation technique and is basically composed of three parts, namely: (i) the expected present value of the debt component; (ii) the conversion option value derived from the right to convert the convertible bonds into shares of the issuer ("Conversion Option Value"); and (iii) the put option value derived from the right to request the issuer for an early redemption ("Put Option Value"). The expected present value of the debt component is determined by the present value of the bond's cash flow at the discount of the required yield. The Conversion Option Value is estimated by using a binomial model and the Put Option Value is estimated at the present value of its payoff, i.e. put price less debt component. As at 31 December 2017, the fair value of Fund II was estimated by reference to a valuation performed by Vigers by using the income approach adjusted by net asset method. Unlisted investment funds of HK$96,519,000 (2017: Nil) were transferred upon the Fund II and Fund III disposed of their entire equity interests in Total Thrive and Sky Hero to Shibo Investment Limited and Easco Investment Limited on 14 February 2018 (note 24(i)).

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44. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Cont'd)*

The Company's management decides to appoint which external valuer to be responsible for the external valuations of unlisted convertible bonds. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

Below is a summary of the significant unobservable inputs of Level 3 instruments together with a quantitative sensitivity analysis as at 31 December 2018 and 2017.

2018

	Valuation technique	**Significant unobservable inputs**	**Weight average**	**Sensitivity of fair value to 5% increase in unobservable input** *HK$'000*
Unlisted convertible bonds	Discounted cash flow method on debt component and binomial model	Risk-free rate	1.98%	40
		Market multiples	7.752	286
		Marketability discount	13.8%	(65)
		Probability of potential investment	2.5%	200

2017

	Valuation technique	Significant unobservable inputs	Weight average	Sensitivity of fair value to 5% increase in unobservable input *HK$'000*
Unlisted investment	Income approach adjusted by net asset method	Gross development value		
		– Residential	HK$28,500 per square feet	62,038
		– Retail	HK$40,000 per square feet	–
		– Car park	HK$3,300,000 per unit	–
		Marketing costs	3%	(2,607)
		Professional fee	6%	(1,147)
		Financing cost	5%	(1,460)
		Contingency fee	3%	(521)

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include cash and cash equivalents, restricted cash, pledged bank balances, financial assets included in prepayments, deposits and other receivables, trade receivables, contract assets, trade and retention payables, other payables, interest-bearing bank borrowings, interest-bearing other borrowing and guaranteed notes. Details of these financial instruments are disclosed in the respective notes to these financial statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure that appropriate measures are implemented in a timely and effective manner.

Credit risk

The Group's principal financial assets are cash and cash equivalents, restricted cash, pledged bank balances, and trade and other receivables.

Maximum exposure 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. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Contract assets*	–	–	–	925,574	925,574
Trade receivables*	–	–	–	167,164	167,164
Financial assets included in prepayments, deposits and other receivables					
– Normal**	628,341	–	–	–	628,341
– Doubtful**	293	–	–	–	293
Pledged bank balances					
– Not yet past due	37,469	–	–	–	37,469
Restricted cash					
– Not yet past due	1,430,897	–	–	–	1,430,897
Cash and cash equivalents					
– Not yet past due	2,854,257	–	–	–	2,854,257
	4,951,257	–	–	1,092,738	6,043,995

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 21 and 22 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 as "doubtful".

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Credit risk *(Cont'd)*

Maximum exposure as at 31 December 2017

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

The Group's credit risk is primarily attributable to its trade and retention and other receivables. The management of the Group monitors each individual trade debt on an ongoing basis and the Group's exposure to bad debts is not significant. The Group has no significant concentration of credit risk, with the exposure spreading over a large number of counterparties and customers. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and retention and other receivables are disclosed in notes 21 and 23 to the financial statements, respectively.

Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its interest-bearing bank and other borrowings. Borrowings at variable rates expose the Group to interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors the Group's interest rate exposure and considers entering into interest rate swaps to reduce its exposure to interest rate fluctuations should the need arise.

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) and the Group's equity (before any impact on tax).

	Increase in interest rate	**Decrease in profit before tax** *HK$'000*	**Decrease in equity*** *HK$'000*
2018			
Bank borrowings	**100 basis points**	**(2,997)**	**–**
Other borrowings	**100 basis points**	**(3,000)**	**–**
2017			
Bank borrowings	100 basis points	(746)	–

* Excluding retained profits

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Foreign exchange risk

The Group operates mainly in Hong Kong and Mainland China with most of its transactions settled in Hong Kong dollars and Renminbi. Certain of the Group's monetary assets and liabilities are denominated in US$. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi and US$ against HK$. The Group considered the impact on equity from the change in US$ exchange rate was minimal at the end of the reporting period since HK$ is pegged to US$. In the current year, all of the Group's bank and other borrowings are denominated in Hong Kong dollars.

Management monitors the Group's currency exposure on an ongoing basis and considers entering into forward currency contracts when the need arises.

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

	Increase in exchange rate %	Increase in profit before tax *HK$'000*
2018		
If Hong Kong dollar weakens against Renminbi	**5**	**25,546**
2017		
If Hong Kong dollar weakens against Renminbi	5	10

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

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

	2018				
	On demand	**Less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Trade and retention payables	**–**	**445,907**	**–**	**–**	**445,907**
Other payables	**–**	**918**	**–**	**–**	**918**
Interest-bearing bank borrowings	**–**	**232,952**	**2,993,883**	**49,829**	**3,276,664**
Interest-bearing other borrowing	**–**	**–**	**300,000**	**–**	**300,000**
Guaranteed notes	**–**	**–**	**305,000**	**–**	**305,000**
Guarantees in respect of performance bonds in relation to subsidiaries	**325,219**	**–**	**–**	**–**	**325,219**
	325,219	**679,777**	**3,598,883**	**49,829**	**4,653,708**

	2017				
	On demand	Less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and retention payables	–	319,752	–	–	319,752
Other payables	–	4,402	–	–	4,402
Interest-bearing bank borrowings	–	5,809,375	16,779	53,863	5,880,017
Guaranteed notes	–	–	305,000	–	305,000
Guarantees in respect of performance bonds in relation to subsidiaries	255,782	–	–	–	255,782
	255,782	6,133,529	321,779	53,863	6,764,953

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity of the Group. The Group's policy is to maintain the gearing ratio not exceeding 50%. Net debt includes trade and retention payables, other payables, interest-bearing bank and other borrowings and guaranteed notes less pledged bank balances, restricted cash and cash and cash equivalents. Capital includes total equity of the Group. The gearing ratios as at the end of the reporting periods were as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Trade and retention payables	**445,907**	319,752
Other payables	**918**	4,402
Interest-bearing bank borrowings	**3,234,292**	5,880,017
Interest-bearing other borrowing	**300,000**	–
Guaranteed notes	**298,857**	295,343
Less: Pledged bank balances	**(37,469)**	(41,414)
Restricted cash	**(1,430,897)**	–
Cash and cash equivalents	**(2,854,257)**	(2,327,460)
Net debt/(cash)	**(42,649)**	4,130,640
Total equity	**12,162,663**	12,218,001
Gearing ratio	**N/A**	34%

46. EVENTS AFTER THE REPORTING PERIOD

(a) Disposal of subsidiaries

On 1 February 2019, Omnilink and the Company (as Omnilink's guarantor) entered into a sale and purchase agreement with independent third parties, Fabulous New Limited and Wheelock Properties Limited (as Fabulous' guarantor), respectively, pursuant to which, Fabulous New Limited agreed to acquire from Omnilink the entire issue capital of Twinpeak Assets Limited and all amounts which Twinpeak Assets Limited owes to Omnilink as at the date of completion at cash consideration of HK$3,912,225,000. The principal assets of Twinpeak Assets Limited comprise all the issued share capital of Milway Development Limited, the owner of the development under construction on New Kowloon Inland Lot No. 6563 on Kai Tak Area 1L Site 2, Kai Tak, Kowloon, Hong Kong. The disposal was completed on 15 February 2019. Details of the disposal were set out in the Company's announcements dated 1 February 2019 and 15 February 2019 and the circular dated 25 February 2019.

(b) Acquisition of subsidiaries

On 28 February 2019, Fundamental Assets IV Limited, a wholly-owned subsidiary of the Company, and Jinshang International Investment Company Limited ("Jinshang International"), an independent party, entered into a sale and purchase agreement, pursuant to which, Fundamental Assets IV Limited agreed to purchase and Jinshang International agreed to sell the entire issue capital of Superior Choice Holdings Limited ("Superior Choice") and the loans owed by Superior Choice and its subsidiary to Jinshang International at cash consideration of HK$700,000,000. The principal assets of Superior Choice Holdings Limited comprise all the issued share capital of Excel Pointer Limited, the sole legal and beneficial owner of a property known as "CentreHollywood" located at No. 151 Hollywood Road, Hong Kong. The acquisition was completed on 28 February 2019.

(c) Acquisition of approximately 69.54% of issued shares of the Company by Times Holdings II Limited

Pursuant to the joint announcement dated 8 March 2019 ("Joint Announcement"), the Company and Times Holdings II Limited jointly announced that, on 8 March 2019, Times Holdings II Limited and HNA Finance I, the Company's then controlling shareholder, entered into a sale and purchase agreement pursuant to which, Times Holdings II Limited has conditionally agreed to purchase, and HNA Finance I has conditionally agreed to sell, 2,340,904,131 shares, which represent approximately 69.54% of issued shares of the Company as at the date of entering into the sale and purchase agreement, for an aggregate cash consideration of approximately HK$7,022,712,000 (representing HK$3.00 per share) (the "Times Transaction").

Upon closing of the Times Transaction on 27 March 2019, Times Holdings II Limited has become the controlling shareholder of the Company.

Further details of Times Transaction were disclosed in the Joint Announcement and the closing announcement dated 27 March 2019.

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47. 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		
Property, plant and equipment	**2,878**	5,587
Interests in subsidiaries	**8,369,661**	9,500,873
Total non-current assets	**8,372,539**	9,506,460
CURRENT ASSETS		
Amounts due from subsidiaries	**2,470,845**	106,105
Prepayments, deposits and other receivables	**4,224**	4,516
Cash and cash equivalents	**391,924**	2,085,712
Total current assets	**2,866,993**	2,196,333
CURRENT LIABILITIES		
Amounts due to subsidiaries	**297,974**	284,493
Trade payables and accruals	**10,325**	7,412
Other payables, deposits received and receipt in advance	**2,513**	334
Total current liabilities	**310,812**	292,239
NET CURRENT ASSETS	**2,556,181**	1,904,094
Net assets	**10,928,720**	11,410,554
EQUITY		
Issued capital	**336,483**	340,249
Reserves (note)	**10,592,237**	11,070,305
Total equity	**10,928,720**	11,410,554

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Cont'd)*

Note:

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

	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Share option reserve *HK$'000*	Forward equity contract *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Total *HK$'000*
At 1 January 2017	1,032,150	593,811	–	(104,598)	533,565	2,054,928
Profit for the year	–	–	–	–	408	408
Total comprehensive income for the year	–	–	–	–	408	408
Issue of shares (note 32)	9,027,961	–	–	–	–	9,027,961
Share issue expenses (note 32)	(4,174)	–	–	–	–	(4,174)
Forward acquisition of additional interests in a subsidiary (note 41)	–	–	–	104,598	–	104,598
2016 final dividend declared and paid (note 12)	–	–	–	–	(113,416)	(113,416)
At 31 December 2017 and 1 January 2018	**10,055,937**	**593,811**	**–**	**–**	**420,557**	**11,070,305**
Loss for the year	**–**	**–**	**–**	**–**	**(245,730)**	**(245,730)**
Total comprehensive expenses for the year	**–**	**–**	**–**	**–**	**(245,730)**	**(245,730)**
Shares repurchased and cancelled (note 32)	**(54,129)**	**–**	**–**	**–**	**–**	**(54,129)**
Equity-settled share option arrangements (note 33)	**–**	**–**	**160,060**	**–**	**–**	**160,060**
Transfer of share option reserve upon the expiry of share options	**–**	**–**	**(10,284)**	**–**	**10,284**	**–**
Issue of shares (note 32)	**2,481**	**–**	**(501)**	**–**	**–**	**1,980**
2017 final dividend declared and paid (note 12)	**–**	**–**	**–**	**–**	**(340,249)**	**(340,249)**
At 31 December 2018	**10,004,289**	**593,811**	**149,275**	**–**	**(155,138)**	**10,592,237**

The contributed surplus of the Company included the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1991 prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor amounting to HK$29,950,000. In addition, pursuant to a special resolution passed at the annual general meeting of the Company held on 7 August 2015, the entire amount of HK$563,861,000 standing to the credit of share premium account of the Company as at 7 August 2015 was cancelled, and the corresponding balance arising therefrom was credited to the contributed surplus account of the Company. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

Schedule of Major Properties

Property Held for Sale

Location	Type of development	Approximate gross floor area *(sq.m)*	Group's interest
The Pinnacle Huanghe Nan Avenue, Huanggu District, Shenyang City, Liaoning Province, PRC	Residential / Commercial	165,000	100%

Property For Investment

Location	Type of development	Lease	Group's interest
CentreHollywood No. 151 Hollywood Road Hong Kong	Office / Commercial	Long term	100%

Corporate Information

Board of Directors

Executive Directors

Mr CHEN Chao *(Co-Chairman)*
Mr SUN Kin Ho Steven *(Co-Chairman)*
Mr HE Jiafu *(Vice Chairman and Chief Executive Officer)*
Mr FUNG Chiu Chak, Victor *(Vice Chairman)*
Mr LIU Junchun *(Vice Chairman)*
Mr HUANG Qijun
Mr GUO Ke
Mr ZHANG Peihua

Non-executive Directors

Mr TANG King Shing
Mr YANG Han Hsiang

Independent Non-executive Directors

Mr FAN Chor Ho
Mr TSE Man Bun
Mr LUNG Chee Ming, George
Mr LI Kit Chee
Mr CHONG Kin Ho

Audit Committee

Mr FAN Chor Ho *(Chairman)*
Mr TSE Man Bun
Mr LUNG Chee Ming, George
Mr LI Kit Chee
Mr CHONG Kin Ho

Remuneration Committee

Mr TSE Man Bun *(Chairman)*
Mr SUN Kin Ho Steven
Mr HE Jiafu
Mr FUNG Chiu Chak, Victor
Mr FAN Chor Ho
Mr LI Kit Chee
Mr LUNG Chee Ming, George

Nomination Committee

Mr SUN Kin Ho Steven *(Chairman)*
Mr HE Jiafu
Mr FAN Chor Ho
Mr TSE Man Bun
Mr LUNG Chee Ming, George
Mr LI Kit Chee

Financial Controller

Miss WANG Xiaoqiong

Company Secretary

Miss WONG Suk Han, Kitty

Auditor

Ernst & Young

Legal Advisers

Conyers, Dill & Pearman
Reed Smith Richards Butler

Principal Bankers

DBS Bank Ltd.
Shanghai Commercial Bank Limited
China Construction Bank
The Shanghai Commercial & Saving Bank, Ltd.
BNP Paribas Hong Kong Branch

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Corporate Information

Head Office and Principal Place of Business

20th Floor One Island South
No. 2 Heung Yip Road
Wong Chuk Hang
Hong Kong

Branch Registrar in Hong Kong

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

HKSE Stock Code

687

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