



勒泰
LERTHAI

勒泰集團有限公司
LERTHAI GROUP LIMITED

| formerly known as LT Commercial Real Estate Limited | Stock Code : 112 |

| Incorporated in Hong Kong with limited liability |

20
18 ANNUAL REPORT





Corporate Overview

Lerthai Group Limited (formerly known as LT Commercial Real Estate Limited) (Stock Code: 112) (the “Company”, together with its subsidiaries collectively referred to as the “Group” or “Lerthai”) is incorporated in Hong Kong and the issued shares of which are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and is one of the leading property investment, management, and development groups in China. The controlling shareholder of the Company is China Lerthai Group (“China Lerthai”) which was founded in 2003, built its unique brand and quality property portfolio for 15 years. The Company built its quality through excellence, integrity and partnership. The Group invests, develops, owns and manages about 22,000,000 sq. ft. of mixed use projects including large scale regional malls, luxurious residential units, Grade A office space, international quality hotels, serviced apartments, cinemas, ice-skating rinks, department stores, theatres, hypermarkets, entertainment complex and car-parking ports in China. Lerthai Capital Group Limited is a wholly-owned subsidiary of the Company which holds Type 1, 2, 4 and 9 Licenses of the Securities and Futures Commission of Hong Kong to carry out regulated activities in the financial services sector. At Lerthai, we create spaces for improving communities, inspiring people and inducing quality living!



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Forward-Looking Statements

This annual report contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company’s control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

Directors

Executive Directors:
 Mr. Yang Longfei (*Chairman and Chief Executive Officer*)
 Ms. Zhang Yan (*Vice Chairlady and Co-Chief Executive Officer*)

Non-executive Director:
 Mr. Yang Shao Ming

Independent Non-executive Directors:
 Mr. Wan Kah Ming
 Mr. Wong Hon Kit
 Mr. Wong Tat Keung

Audit Committee

Mr. Wong Tat Keung (*Chairman*)
 Mr. Wan Kah Ming
 Mr. Wong Hon Kit

Remuneration Committee

Mr. Wong Hon Kit (*Chairman*)
 Mr. Wong Tat Keung
 Mr. Yang Longfei

Nomination Committee

Mr. Wong Tat Keung (*Chairman*)
 Mr. Wong Hon Kit
 Mr. Yang Longfei

Company Secretary

Mr. Wong Shui Yeung

Auditor

ZHONGHUI ANDA CPA Limited
 Unit 701, 7/F.,
 Citicorp Centre
 18 Whitfield Road
 Causeway Bay
 Hong Kong

Principal Banker

Industrial and Commercial Bank of China Limited
 The Bank of East Asia (China) Limited
 China Construction Bank Corporation
 China Merchants Bank

Registered Office and Principal Place of Business

Room 3303, Tower Two
 Lippo Centre, 89 Queensway
 Admiralty, Hong Kong

Registrar and Transfer Office

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

Website

<http://www.lerthai.com.hk>

Stock Code

112

Board Lot

2,000 Shares

Investor Relations

Investor Relations Department
 Tel: (852) 2530 3313
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CHAIRMAN'S STATEMENT

串城街



Dear shareholders,

I am pleased to present to all shareholders the business review of the Company for the year ended 31 December 2018 and the outlook for 2019.

2018 Review

Development environment review

In 2018, the kinetic energy conversion between the old and new global economy had not been completed with imbalances seen in terms of the in-depth issues and structural problems among the nations not yet eliminated. The geopolitical conflicts had emerged one after another with protectionism and unilateralism intensifying. The Sino-U.S. trade tensions and tariff war led to tariffs imposition on various commodities and this had adversely affected almost all products, be they agricultural, industrial or technological.

Meanwhile, the global economy experienced profound reforms and adjustments last year. The global multi-polarization and economic globalization deepening further with technological revolution and industrial reform propelling much wider and deeper. Breakthroughs have been made in cutting-edge technologies such as big data and artificial intelligence and new technologies, new business norms and industries kept on cropping up. With uncertainties affecting the global economy, the central government abided to its keynote of seeking progress while maintaining stable economic growth. With the supply-side structural reform as the focus, it promoted structural optimization, energy conversion and quality improvement. As a result, the national economy achieved stable growth and outperformed its estimation. The gross domestic product ("GDP") increased by 6.6% year-on-year.

Yang, Longfei
Chairman

Furthermore, with the coordinated development of the Beijing-Tianjin-Hebei region, all of our projects in Hebei Province will benefit from the expansion and construction national policy of Xiong'an New District. The national development strategy aims to facilitate the coordinated development of Beijing, Tianjin and Hebei. In 2018, the GDP growth in Hebei reached 6.6%, which was in line with national GDP growth. It is obvious that the implementation of new national measures has brought new opportunities for the development of Hebei Province.

Performance Review of the Group

During the period under review, the Group continued to operate and followed its strategies stringently. Through the overall upgrading in management and speeding up the improvement in operation capability, it fully leveraged and integrated various resources to develop the core competitiveness in corporate development, thus achieving sustained and stable growth strategically, financially and operation-wised. The total assets of the Group reached HK\$26,675 million. Total market capitalization was approximately HK\$5,022 million. Net assets were HK\$6,092 million. Total revenue was HK\$910 million. Net profit was HK\$710 million. Total comprehensive income attributable to equity holders was approximately HK\$315 million.

Change of Name

In February 2019, the name of the Company was changed from "LT Commercial Real Estate Limited 勒泰商業地產有限公司" to "Lerthai Group Limited 勒泰集團有限公司" to better reflect the Company's strategy and future development of the business of the Group.

Property Investment and Real Estate Development

To maximize the interests of investors, the Company introduced important measures on its investment portfolios during the year under review.

Firstly, the Company completed the acquisition of two properties in the People's Republic of China (the "PRC") on 20 April 2018, namely Tangshan Pelagic Mall and Shijiazhuang Lerthai Centre. These properties were construction completed projects mainly comprised of office towers, hotel properties and retail shopping malls located in the cities of Shijiazhuang and Tangshan, the PRC. Such acquisition is a key strategic initiative and milestone of the Group.

In addition, the Company completed the selling of the two property projects in the United States of America (the "USA") in February 2019. The two property projects have limited growth potential and lack of synergistic potential for more attractive investment options. The Group will focus on the business investment and management in the PRC as it believes that there are still sufficient commercial assets and professional management that are in line with our strategies in the PRC.

Tangshan Pelagic Mall is a shopping arcade and commercial development located at Tangshan City. It is located in a popular business and entertainment district surrounded by high-end residential real estate projects of renowned property developers in the PRC. It has a total gross floor area ("GFA") of approximately 1,167,000 sq. ft., of which a total GFA of 33,000 sq. ft. have been sold, and the remaining approximately 1,134,000 sq. ft. are held by Tangshan Oceancity Real Estate Development Company Limited for leasing purpose, as well as for office use by the Group. Tangshan Oceancity Real Estate Development Company Limited owns the land and building ownership and the land use right of Tangshan Pelagic Mall. The project targets to become a high-ended shopping mall in Tangshan area with various international brands and sellers operating. As the Group is focused on property development and investment, to ensure the smooth operation of Tangshan Pelagic Mall and the quality of property management thereat, and to ensure the performance of the project in order to maximize returns to the Group under the Asset-backed Special Program, the Company engaged Lerthai Property Services Company Limited, which is specialized in the provision of property management services and the operation of shopping malls, to provide such services.

Shijiazhuang Lerthai Centre is a large-scale urban complex project invested and constructed by the Company in Hebei. It is a commercial complex with a GFA of 5,969,000 sq. ft., comprising a tower phase of approximately 2,144,000 sq. ft. and a shopping mall phase of approximately 3,824,000 sq. ft. The tower phase is used as offices and hotel while the shopping mall phase comprises shops and car parking lots. Shijiazhuang Lerthai Centre brings together diversified types of business, including the mega-size international shopping mall, fashionable landmark Zhuangli Street, romantic sky square, five-star hotels, super 5A intelligence office buildings, creative LOFT, the Bitaoe Hot Spring SPA hotel as well as apartments above five-star hotels. There are 336 domestic and overseas renowned commercial, catering, leisure and entertainment brands from 15 countries that have

settled in and commenced their operation. Also, there are 58 international well-known brands such as EuroJoy, Hong Kong UME cinemas, Tera Wellness, Xiao Nan Guo, Hai Di Lao and HOLA that have already set their presence. The title and land use right in the shopping mall phase of Shijiazhuang Lerthai Centre with a GFA of approximately 3,423,000 sq. ft., as well as the fixture and equipments thereon, were held by Shijiazhuang Lerthai Commercial Management Company Limited, which formed the subject assets of an asset management scheme by implementing a fund and has been securitized by way of issuance of the asset-backed securities ("ABS") listed on the Shenzhen Stock Exchange ("SSE") (stock code: 119423 and 119424).

Tangshan Lerthai City is a large-scale mixed use complex of the Group. It is located in the western part of Tangshan and close to Tangshan Highspeed Railway station and accessible to Beijing Tangshan Inter-city Railway station. This project has a GFA of approximately 8,988,000 sq. ft., comprising a four-storey commercial podium building (1,530,000 sq. ft.) above the ground and a two-storey basement super-large parking lot (990,000 sq. ft.) as well as hotels, apartments, office and residential buildings. It has a population of approximately 600,000 in the vicinity radiating 5 kilometers and the business circle covers a population of 2.70 million. During the period under review, with the delivery of large commercial podium shops in Tangshan Lerthai City, the completion of the boutique decoration of the Tower 6 lobby of Tangshan Lerthai real estate project and Fenghuangli in Zone C were completed and delivered ahead of schedule and the opening of the theme block Tianmu Chinatown Fenghuangli, it is believed that Tangshan Lerthai City will enhance the Company's rental and retail property portfolio in terms of the leasable areas and properties held for sale. This shall provide a more steady cash flow from operations for the Group in the future. In addition, the Company will continue to adjust the transaction portfolio and the tenants mix to maximize the rental income.

Handan Lerthai City, a large-scale commercial mixed use complex of the Company, is located at the central business district of Handan City. With a total investment of more than RMB5 billion, the project is located at the centre of Handan City, covering a land area of 1,022,400 sq. ft. with a GFA of approximately 3,033,000 sq. ft. It also comprises mega commercial facilities, leisure shopping, luxurious hotel, quadruple courts, as well as a wide range of dining, entertainment and

sports venues. The project was designed by Haoshikai Architectural Design Company (豪世凱建築設計事務所), a US architecture firm. Adhering to the commercial philosophy of "One City, One Landscape and One Landmark" of Lerthai brand, the project deeply explores the integration of historical and folk cultural resources, and follows the ancient architectural style to connect north and south, fully restoring the historical landscape of Handan and displaying the culture of the capital city of the ancient Zhao kingdom. Following the design concept of "Construing the tradition with modernism", the project highlights the culture of the ancient Zhao kingdom and is designed to be a cultural tourism block integrating urban cultural tourism, experiential entertainment, dining and shopping. The construction projects include the Wuling Square, Goddess of Mercy Pavilion, mosque, pedestrian mall, Xuncius Memorial Hall, First Emperor Memorial Hall, Historical Museum of the Ancient Zhao Kingdom and Zhang Guoyan Zongmiao Ancestral Temple. Some construction projects of the Handan project were delayed due to certain municipal and domestic policies. We are now speeding up the construction progress of the project. The shopping mall of Handan Lerthai City is scheduled to be opened in the second half of 2019.

"Lerthai Jiayuan", a residential project in Handan City with a planned GFA of approximately 3,335,000 sq. ft., obtained the pre-sale permit in the fourth quarter of 2016. The pre-sale of the residential units was initiated in 2017. The Company expected that the residential units will be delivered to buyers in the second half of 2019.

Financial Services Business

Besides developing traditional financial business to provide support for our development, Lerthai Capital Group, a subsidiary of the Company, also focuses on revitalizing stock assets, develops real estate securitization of its high-quality projects and actively carries out commercial real estate private funds and real estate trust funds, asset merger and acquisition and other businesses. In particular, Shijiazhuang Lerthai Center, which is newly acquired by the Company, is the first real estate investment trusts (REITs) product "without relying on any single subject credit rating" in China. To grasp the trends of and opportunities in financial development, the Company also holds Type 1, 2, 4 and 9 Licenses of the Securities and Futures Commission of Hong Kong to carry out regulated activities in the financial services sector and conducts Type 9 (asset management) activities.

In July 2018, the Company announced that Tangshan Pelagic Mall, a project under the Company, applied for the issuance of ABS on SSE with Beijing Lerthai as the original beneficial owner. The ABS will be issued to qualified investors in the PRC. It will complement to the desirous funding for business development, meet the Group's liquidity requirements and fulfill the liquidity development needs, and diversify the funding sources of the Group, optimize the assets structure, increase capital efficiency and enhance operational capabilities as well as having the opportunity for REITs in the future to expand the Group's business model of light assets.

In the financial development plan, the Company will focus on the establishment of asset management platforms, and is expected to establish an overseas fund management company. Meanwhile, the Company will expand the scale of asset management by leveraging on high-quality asset portfolio of stock assets. The Company will adjust the financing structure through the listing platform to achieve financial innovation, prevent financial risks, and thereby achieving the rapid integration of financial resources and financial instruments.

Corporate Governance

The board of directors ("Board") of the Company ("Directors") is well aware that the primary responsibility of the enterprise is to protect and make use of the enterprise resources to continuously bringing appreciation for shareholders. Good corporate governance is an essential factor in enhancing corporate profitability and sustainable development. The Company has been committed to enhancing the corporate governance to ensure effective operation of the businesses and assets security as well as the interests of its shareholders.

In 2018, by concentrating on the annual work theme of "Management Enhancement", the Company worked together with Deloitte Touche Tomatsu, a management consultancy company, to upgrade the management system and complete the management and strategy analysis, organizational structure system design and other management enhancements.

One of the significant achievements of the Company during the management enhancement period was the upgrading of the strategic system. After taking full

consideration of the history, founders, stakeholders and social responsibilities of the enterprise, Deloitte Touche Tomatsu set out the development mission of "Joining hands with world commerce to change urban life". After giving full consideration from end consumers to upstream investors and focusing on the business returns to investors while emphasizing the continuous value creation and developing a win-win long-term ecosystem for investors, the Company established the corporate vision of "Being a commercial asset operator leading urban consumption and continuously creating value for investors". Based on this, it set out the three-year strategic objective of achieving "Total assets of RMB50 billion, revenue of RMB5 billion, profit of RMB3 billion and 10 to 15 projects by 2021". To facilitate achieving the corporate vision and strategic objective, the Company has formed the strategy of having "Business management as the core with the synergy of six segments, including finance, investment, real estate, self-operation and partners, and having the supporting functions (human resources, finance and risk control) in place". It also set out the development model of "Leveraging the co-existence of various business models to achieve scalable growth through the merger and acquisition of high-quality projects and achieving rapid expansion to other regions while rooted in Hebei".

Under the guidance of a clearer vision and mission as well as a clearer business model, and to further promote and optimize the corporate layout, the Company continues to optimize and effectively implement the organizational management and control system. It will empower functional departments and individual positions of employees and optimize department performance indicators, procedures and systems and effectively implement management results into specific working practice. Furthermore, the Company is establishing an effective project operation management regime to enhance operational management standards of each project and improve overall operational capability of the Company from the operation of business solicitation, introduction and application of new technologies and optimization of talent training mechanism. At the same time, the Company emphasizes the improvement of the brand library and tenant management system, enhances the cooperation with external resources, fully leverages the Internet of Things and big data, and continues to enhance product design and innovation ability and cost control ability to improve the premium and profitability of the products.

The Company is also actively building a market-oriented compensation system to further deepen the long-term incentive mechanism and propel the stock incentive plan tailor-made for core employees of the listed company. With the objective of sharing both risks and profits, it has effectively motivated management enthusiasm regarding the project. The Company promotes the implementation of the systematic talent development projects, optimizes the training system for key talents and actively introduces outstanding professional managers externally to provide strong talent assurance for the development of the Company.

Outlook for 2019

The PRC economy has steered into a high-quality development stage from high-speed growth. The central government will persist to the keynote of seeking progress while maintaining stability and continue to deepen the supply-side structural reform. It is devoted to deepening the reforms in the fundamental and key areas and supporting the development of private enterprises. Meanwhile, it will adopt proactive fiscal policies and prudent and neutral monetary policies to promote the economic systemic reform and foster new drivers to economic growth. It is expected that China's macro-economy will maintain a steady growth in 2019. However, trade protectionism, US interest rate hikes, tightened monetary policies, geopolitical risks and other uncertainties will still bring challenges to global economic growth.

Leveraging our outstanding performance in shopping mall operation and management, we believe the shopping mall performance in our current investment portfolio will continue to drive our revenue growth. Due to our business flexibility and stability, Lerthai is well prepared to with stand the potential turmoil in the market. We will continue to seize the opportunities in economic growth, policy and other aspects, sustain in strengthening our core competitiveness, enhance our operation capacity and profitability and share the development results with the society to shoulder the responsibilities together in promoting the urban construction and people's happiness with business development.

Under the trend of new retail and intelligence empowerment, Lerthai will have in-depth connection with technologies, and strive to achieve stable

development with leading commercial real estate operation models. In addition, we will continue to strengthen our current investment portfolio, continue to prudently explore acquisition opportunities. We will enhance our investment portfolio through the acquisition of quality assets or assets that are poorly managed but possess sufficient development potential, constantly review the diversified investment portfolio and closely monitor the performance of the investment portfolio. In addition to the commercial real estate projects in Hebei Province, the Group will also seek potential investment opportunities in tier-1 and tier-2 cities and overseas markets. We are cautiously optimistic about the upcoming macroeconomic environment and are committed to promoting the revenue growth on a solid foundation of our investment portfolio and maximizing the long-term value for stakeholders and shareholders.

Acknowledgement

2019 is the first year for the implementation of the Company's "three-year strategic objective" plan. The Company is fully implementing the 2019 annual objective and the "Three-year strategic objective" development plan. It will seize the important strategic development opportunity period and constantly create value for shareholders through enhancement, management upgrade and innovative breakthroughs. In addition to the correct leadership of the board of directors and the unremitting efforts of all employees, the Company also attributes the development of various businesses over the years to the full trust and continuous support of shareholders, customers and partners. I would like to express our heartfelt thanks to all of them. Lerthai believes that it is our mission to serve the society and fulfill social responsibilities with sincerity. Only by maximizing social benefits then we can achieve sustainable development and bring long-term and fruitful returns to shareholders.

Yang, Longfei
Chairman

Hong Kong, 29 March 2019



Management Discussion and Analysis



Business Review

The current property portfolio comprises five high quality properties, namely, Tangshan Lerthai City, Tangshan Pelagic Mall, Handan Lerthai City, Shijiazhuang Lerthai Centre, and Lerthai Jiayuan. All properties are located in the central business district of Hebei. The categories of the properties include retail business, offices, hotels, and residential units, etc.

Review by Segment

Real Estate Business in Tangshan, the PRC

Tangshan Lerthai City

Tangshan Lerthai City, a large-scale mixed use complex, situated in the western part of Tangshan which is adjacent to the Tangshan Highspeed Railway station and Beijing Tangshan Inter-city Railway station. This project has a GFA of approximately 8,988,000 sq. ft. comprised residential units, regional retail shopping mall, hotels, commercial offices, entertainment facilities and sports facilities within the mega complexes. Tangshan Lerthai City mainly comprises (i) the Lerthai Centre, a regional shopping mall with a total GFA of approximately 3,106,000 sq. ft.; and (ii) the residential

area of a total GFA of approximately 2,022,000 sq. ft. with approximately 1,500 residential units.

The Zones A, B and C of shopping mall of Tangshan Lerthai City has a steady performance. Despite the better shop re-positioning of Zones A and B of the shopping mall of Tangshan Lerthai City, revenue of HK\$198.4 million was recorded in 2018 (2017: HK\$1,401.0 million). The decline in revenue was due to the recognised revenue of the delivered residential units of Towers 4, 6, 7, 8 and 9 in last year while the remaining towers were not yet delivered to the buyers in 2018.

Tangshan Pelagic Mall

Tangshan Pelagic Mall is a commercial complex with a total GFA of approximately 1,167,000 sq. ft., of which a total GFA of approximately 33,000 sq. ft. have been sold, and the remaining approximately 1,134,000 sq. ft. are held by Tangshan Oceancity Real Estate Development Company Limited for leasing purpose, as well as for the office uses by the Group. Tangshan Pelagic Mall is located in a popular business and entertainment district of Tangshan, Hebei Province surrounded by high-end residential real estate projects of renowned property developers in the PRC. During the year, revenue slightly increased from HK\$219.0 million to HK\$230.3 million.

Real Estate Business in Handan, the PRC

Lerthai Jiayuan

The residential project “Lerthai Jiayuan” obtained pre-sale permit in the fourth quarter of 2016 and commenced pre-sale in 2017. The Group received accumulated pre-sale deposits of HK\$1,567.4 million as at 31 December 2018. Deposits were recorded as “Contract liabilities” in the consolidated financial statements of the Group. The Group expected that the project will be completed and delivered in the second half of 2019.

Handan Lerthai City on Chuancheng street

Handan Lerthai City, a large-scale mixed use complex, located at the central business district in Handan City, Chuancheng Street is situated at the north of Renmin Road, south of Congtai Road, east of Lingxi Street and west of Congtai Park. This project has a planned GFA of approximately 3,037,000 sq. ft. with regional shopping mall, hotels, tourism facilities and mega commercial space.

The regional shopping mall of the Handan Lerthai City is expected to have an official opening in the second half of 2019. Currently, most of the shops have been leased out as various quality tenants are attracted to place their retail presences in the shopping mall and Handan Lerthai City will be another key revenue driver to the Group in the future.

Real Estate Business in Shijiazhuang, the PRC

Shijiazhuang Lerthai Centre is a commercial complex with a GFA of approximately 5,969,000 sq. ft.. It comprises a tower phase of approximately 2,144,000 sq. ft. and a shopping mall phase of approximately 3,824,000 sq. ft.. The tower phase is served as both offices and hotel purpose while the shopping mall phase comprise shops and car parking lots. Thanks to the stable performance of the shopping mall and car parks, revenue increased 13.6% to HK\$465.5 million in 2018.

Disposal of Real Estate Business in the US – South Hills Plaza and Lerthai Platinum Centre

In February 2019, we completed the disposal of LT International Investment Holdings Limited (“LT International Investment”) which holds two properties in the US and the sale loan for a total consideration of HK\$247.4 million. Details of the disposal have been disclosed in the circular of the Company dated 14 January 2019.

The disposal is in line with the Group’s strategy to improve operational efficiency and performance of the portfolio and create value to our shareholders. The Group will continue to review the mix and diversity, and enhance the performance of the portfolio.

Financial Services Businesses

Through its wholly owned subsidiaries, LERTHAI Securities (Hong Kong) Limited which holds Type 1 and Type 2 licenses, and LERTHAI Asset Management Limited which, holds Type 4 and Type 9 licenses from the Securities and Futures Commission of Hong Kong, the Company has been developing a vibrant business in securities, futures and asset management.

In August 2017, Lerthai Global Commercial Real Estate Fund SPC, a segregated portfolio Company, was incorporated in Cayman Islands. Since its setup, Lerthai Global Commercial Real Estate Fund SPC has established three segregated portfolios to invest in commercial real estates in mainland China. These three segregated portfolios are: China Handan Lerthai Commercial Real Estate Fund SP, China Shijiazhuang Lerthai Commercial Real Estate Fund SP, and China Tangshan Lerthai Oceancity Commercial Real Estate SP. LERTHAI Asset Management Limited was appointed as investment manager for China Handan Lerthai Commercial Real Estate Fund SP.

During 2018, LERTHAI Asset Management Limited established Lerthai Equity Investment Fund Management (Shenzhen) Co., Ltd. (勒泰股權投資基金管理(深圳)有限公司) in Qianhai, Shenzhen, under the Qualified Foreign General Partner (“GFGP”) (合格境外普通合伙人) scheme. Lerthai Equity Investment Fund Management (Shenzhen) Co., Ltd. aims at providing an efficient channel for overseas investors to invest in commercial real estate assets that benefit from the prosperous new retail and trading-up consumption in mainland China.

Financial Review

During the year under review, total revenue of the Group was HK\$909.9 million (2017: HK\$2,043.2 million) (restated). The decrease in revenue for the year ended 31 December 2018 was mainly due to most of the residential units of Tangshan Lerthai City were delivered and recognised as revenue in the corresponding period last year and the remaining towers not yet delivered to the buyers, offset by the increase in property management services income.

Other income, expenses, gains and losses increased to net gain of HK\$73.6 million for the year (2017: HK\$42.4 million) (restated). The increase was primarily due to the increase in exchange gain during the year.

The Group recorded an increase of fair value of the investment properties of HK\$1,387.7 million (2017: HK\$1,191.3 million) (restated), contributed by the capital appreciation of Tangshan Lerthai City, Tangshan Pelagic Mall and Handan Lerthai City during the year.

Selling and marketing expenses decreased to HK\$17.4 million (2017: HK\$41.6 million) (restated). Since most of the pre-sale activities of Tangshan Lerthai City were completed in 2017, the related promotion activities had been downsized.

Administrative expenses amounted to HK\$175.3 million (2017: HK\$185.3 million) (restated) which mainly comprised of staff costs, rental and management fee for office premises and legal and professional fee. The increase was primarily due to the professional fee incurred for the acquisition of Lerthai International Holdings Limited (“Lerthai International”) and Greatpro Holdings Limited (“Greatpro”) during the year.

Finance costs recognised as expenses for the year were HK\$792.0 million (2017: HK\$716.1 million) (restated). The increase was mainly due to the interest charged for

certain banking facilities, which was drawdown in the second half of 2017.

As a result of the various factors outlined above, the profit for the year attributable to owners of the Company was HK\$709.7 million (2017: HK\$585.1 million) (restated).

Liquidity and Financial Resources

As at 31 December 2018, the Group’s cash and cash equivalents maintained at HK\$184.1 million (2017: HK\$396.4 million) (restated). The current ratio was 0.53 times (2017: 0.58 times) (restated) as at 31 December 2018.

The Group’s gearing ratio was 46.4% (2017: 45.5%) (restated), which is calculated based on the Group’s total interest bearing borrowings of HK\$12.4 billion (2017: HK\$12.6 billion) (restated) to total assets of HK\$26.7 billion (2017: HK\$27.7 billion) (restated).

Subsequent on 28 March 2019, a bank borrowing amounting to HK\$1,251.8 million included in the current liabilities of HK\$1,915.5 million as at 31 December 2018 had been reclassified from current liabilities to non-current liabilities based on supplemental agreements with a lender. The following table reconciles the Group’s liabilities to its most updated position up to the date of approval of these financial statements.

	As at 31 December 2018 HK\$'000	Reclassification HK\$'000	Subsequent on 28 March 2019 HK\$'000
Current liabilities			
Bank and other borrowings	1,915,517	(1,251,750)	663,767
Other current liabilities	5,724,485	(292,592)	5,431,893
Total current liabilities	7,640,002	(1,544,342)	6,095,660
Net current liabilities	(3,556,216)	1,544,342	(2,011,874)
Total assets less current liabilities	19,035,343	1,544,342	20,579,685
Non-current liabilities			
Bank and other borrowings	9,892,573	1,251,750	11,144,323
Other non-current liabilities	3,050,533	292,592	3,343,125
Total non-current liabilities	12,943,106	1,544,342	14,487,448

Cash Flow Management and Liquidity Risk

The objective of liquidity risk management is to ensure that the Group always has sufficient cash to repay its maturing debt, perform other payment obligations and meet other funding requirements for normal business development.

The Group's liquidity management involves the regular cash flow forecast and the consideration of its liquid assets level and new financings necessary to meet future cash flow requirements.

With banking and controlling shareholder's facilities in place and the recurrent income generated from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Foreign Exchange Exposure

The Group's investment, assets and liabilities are mainly denominated in Hong Kong dollar ("HK\$"), Renminbi ("RMB"), Euros ("EUR") and United States dollar ("US\$") and no hedging has been made during the year. The revenue generated from the Group's business operations in the PRC was denominated in RMB, while the convertible bonds, senior notes and bonds of the Group are denominated in HK\$ and a bank borrowing is denominated in EUR. The Group will continue to monitor closely its exposure to exchange rate and interest rate risks, and may employ derivative financial instruments to hedge against risks when necessary.

Charge of Assets

As at 31 December 2018, the Group's facilities and other loans of HK\$9.6 billion (2017: HK\$10.0 billion) (restated) were pledged with investment properties, properties under development for sales and pledged bank deposits with an aggregate carrying amount of HK\$22.9 billion (2017: HK\$22.7 billion) (restated).

Capital Commitment and Contingent

Liabilities

As at 31 December 2018, the Group's contingent liabilities amounted to HK\$853.2 million (2017: HK\$669.4 million) (restated) relating to guarantees given by the Group to financial institutions on behalf of our purchasers of our property units in the PRC in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 31 December 2018 (and such guarantees will be released upon the issuance of the Building Ownership Certificate). The guarantees were secured by the Group's pledged bank deposits amounting to HK\$33.9 million (2017: HK\$31.4 million) (restated).

As at 31 December 2018, the Group issued financial guarantees to banks in respect of banking facilities granted to related parties and third parties with an aggregate amount of HK\$707.5 million (2017: HK\$2,397.8 million) (restated). The amount represents the aggregate amount that could be required to be paid if the guarantees were called upon in entirety.

As at 31 December 2018, the Group had contracted but not provided for commitments for development cost and capital expenditure in amount of HK\$1,381.8 million (2017: HK\$1,285.4 million) (restated).

Employee and Remuneration Policy

The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include mandatory provident fund, medical insurance and performance related bonus. The Group has adopted the share award scheme and share option scheme as part of the long term incentives for the employees.

As at 31 December 2018, the Group had 267 employees (2017: 352 employees). Total staff costs for the year amounted to HK\$77.7 million (2017: HK\$108.5 million) (restated), which comprised (i) Directors' remuneration of HK\$7.7 million (2017: HK\$6.2 million) (restated) and (ii) staff costs (other than Directors' remuneration) of HK\$70.0 million (2017: HK\$102.3 million) (restated).

Property Valuation

The Group's investment properties located in the USA and the PRC were revalued as at 31 December 2018 by independent qualified professional valuers, Continental Realty Advisors and RHL Appraisal Limited respectively. The valuations were based on income capitalisation approach and residual method by making reference to comparable market information as available in the relevant markets.

For investment properties under development, the valuation has also taken into account the construction costs expended and to be expended to complete the development.

The Group's investment properties were valued at HK\$20.7 billion as at 31 December 2018 (2017: HK\$20.9 billion) (restated), an increase in fair value of HK\$1,387.7 million (2017: HK\$1,191.3 million) (restated) was recognised in the consolidated statement of profit or loss and other comprehensive income for the year.

Issue of Convertible Securities

On 20 April 2018, the Company issued the convertible securities to Mr. Yang with the principal amount of HK\$4,000,000,000 as consideration for the acquisition of the entire issued share capital of Lerthai International and Greatpro. The convertible securities have no maturity date, bears a coupon rate of 2% per annum and will cease to bear any coupon after the fifth anniversary of the date of issue. During the first five years, the coupon shall be accrued on the outstanding principal amount of the convertible securities and payable annually subject to the Company's sole discretion to defer the coupon payment for a maximum period of 10 years from the dates when the relevant coupon fall due by giving notice to the holders.

The convertible securities with principal amount of HK\$4,000,000,000 can be converted into shares at the initial conversion price of HK\$4.5 per share (subject to anti-dilution clauses) up to an aggregate of 888,888,888 shares.

The convertible securities are issued in HK\$. However, upon issuance of the convertible securities and throughout the period until maturity date, the convertible securities shall be translated at the exchange rate at the date of issuance of RMB1.00 = HK\$1.23965. Any payment in the event of redemption by the Company shall be made in RMB by reference to the exchange rate of RMB1.00 = HK\$1.23965. Any conversion shall be made by reference to the principal amounts stated in HK\$.

Details of the convertible securities are set out in the Company's announcements dated 20 March 2018 and 20 April 2018, and the Company's circular dated 28 March 2018.

Events After the Reporting Period

On 23 October 2018, the Company entered into a sale and purchase agreement (the "Agreement") with Mr. Yang to sell the entire issued share capital in LT International Investment, and the sale loan ("Sale Loan") represents all obligations, liabilities and debts owing or incurred by LT International Investment to the Company for a total consideration of HK\$247,369,000. LT International Investment, through its wholly-owned subsidiaries, LTG Platinum LLC and LTG South Hills LLC, was principally engaged in properties development and investment in the USA. Such disposal had been subsequently approved by the independent shareholders of the Company at the extraordinary general meeting on 30 January 2019. The disposal was completed on 4 February 2019 and an aggregated principal amount of HK\$239,569,000 of the promissory note have been issued by Mr. Yang to the Company.

Board of Directors

Mr. YANG Longfei, Executive Director

Mr. YANG Longfei, aged 53, is currently an executive Director, chairman of the Board (“Chairman”), chief executive officer, a member of the remuneration committee and the nomination committee of the Company. He is responsible for the land development and property investment business of the Group, monitoring the functions of the Board and formulating the strategies and policies for the Group’s overall long-term development. Mr. Yang is also the founder and sole director of China Lerthai Commercial Real Estate Holdings Limited (“China Lerthai”), a controlling shareholder of the Company. Mr. Yang led iconic project development of the Shijiazhuang Lerthai Center, Pelagic Mall of Tangshan and other mega scale development. Mr. Yang has over 20 years of experience in commercial retail and real estate business. Mr. Yang is currently a committee member of the eleventh Chinese People’s Political Consultative Conference of Hebei Province. Mr. Yang is also the director of certain subsidiaries of the Company. Mr. Yang is the father of Mr. Yang, Shao Ming, a non-executive Director.

Ms. ZHANG Yan, Executive Director

Ms. ZHANG Yan, aged 44, is currently the Vice Chairlady and an executive Director of the Company, mainly responsible for assisting Mr. Yang Longfei, the Chairman of the Company in formulating the overall development strategy of the listed company and supervising and managing the expansion and daily operation of the Group’s business. She serves China Lerthai for over 15 years, and held various important positions such as the CEO – Financial Services of China Lerthai. She is well experienced in cost control, taxation, financing and business operations and successfully issued the first ABS without single subject credit rating. She is Vice Chairman of Promoting Development Alliances. Ms. Zhang holds a master’s degree in business administration and a law degree awarded by People’s University of China. Ms. Zhang was a committee of People’s Congress Standing of Lubei District of Tangshan. Ms. Zhang was also a permanent member of Tangshan Tsinghua University Alumni Association and a member of Hebei Association of Women Entrepreneurs.

Mr. YANG Shao Ming, Non-executive Director

Mr. YANG Shao Ming, aged 31, is currently a non-executive Director of the Company. He is the chief executive officer of LT Global Holdings Ltd, a subsidiary of the Company in the Canada. He joined China Lerthai in 2011 and has been actively involved in real estate development business for more than 7 years and participated in the Shijiazhuang Lerthai Center and Tangshan Ocean City projects. Mr. Yang leads the team in designing, building and operational planning of various projects in Vancouver, Canada and managing the acquisition, development, financing and leasing. Mr. Yang helps the Company in developing opportunistic property in Canada. Mr. Yang is the son of Mr. Yang Longfei, the executive Director, Chairman and chief executive officer of the Company.

Mr. WAN Kah Ming, Independent Non-Executive Director

Mr. WAN Kah Ming, aged 47, is currently an independent non-executive Director of the Company. He has over 23 years of experience in legal practice focusing on China inbound and outbound investment, finance, mergers, acquisitions and restructuring. He has been the Principal Solicitor of Leung & Wan Solicitors since October 2001. He has been the executive chairman of Boen Capital Ltd. (邦溫資本有限公司) since May 2006. Since 1 February 2017, he has been a member of the Torture Claims Appeal Board. He served as a consultant of Chan & Chiu Solicitors (陳彼得趙國榮律師行) from January 1998 to September 2001 and an assistant solicitor of S.H. Chan & Co. (陳淑雄律師行) from June 1994 to December 1997. Mr. Wan received his bachelor of law (Hons) and Postgraduate Certificate in Laws (PCLL) from The University of Hong Kong in 1993 and 1994, respectively. He was admitted as a Solicitor by the High Court of Hong Kong in 1996 and the Supreme Court of Wales in 2001. He is also currently a member of the Law Society of Hong Kong and the Chartered Institute of Arbitrators. He has been a China-Appointed Attesting Officer by the Ministry of Justice, PRC (中國司法部委託公證人) since April 2009. He is currently the vice chairman of China Council for the Promotion of Nationalities Trade Hong Kong Branch (中國民族貿易促進會香港分會), the director of Hong Kong Association for the Promotion of Peaceful Reunification of China, the founding director of the China Industrial Overseas Development Association (中國產業海外發展協會), the executive director of China Merger & Acquisition Association (中國併購公會) and the vice chairman of its Hong Kong Branch. Mr. Wan has been appointed as an independent non-executive director of SPT Energy Group Inc. (stock code: 1251) since December 2011, whose shares are listed on the Stock Exchange.

Mr. WONG Hon Kit, Independent Non-Executive Director

Mr. WONG Hon Kit, aged 52, is currently an independent non-executive Director of the Company. He currently is a director and a responsible officer of Orient Victory Azure Capital Limited who is directly responsible for the supervision of type 6 regulated activities under the SFO. Mr. Wong has over 17 years of experience in the corporate finance industry. He has held various positions, including chief financial officer, director and company secretary in different companies in Hong Kong, where he has experience in handling corporate finance transactions such as mergers and acquisitions, capital fund raising and restructuring. Mr. Wong obtained a Diploma in Accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 1991. He was admitted as an associate member of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) in March 2000. Mr. Wong has been appointed as an independent non-executive director of Wanjia Group Holdings Limited (stock code: 401) since April 2013 and as an independent non-executive director of Heng Xin China Holdings Limited (stock code: 8046) since June 2018, whose shares are listed on the Main Board of the Stock Exchange and the GEM Board of the Stock Exchange respectively. He was also an independent non-executive director of Xinhua News Media Holdings Limited (stock code: 309) from September 2017 to October 2017 and an independent non-executive director of Smart-Core Holdings Limited (stock code: 2166) from March 2016 to June 2018, whose shares are listed on the Main Board of the Stock Exchange.

Mr. WONG Tat Keung, Independent Non-Executive Director

Mr. WONG Tat Keung, aged 47, is currently an independent non-executive Director of the Company. He obtained a master's degree in business administration (financial services) from the University of Greenwich, England. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and has more than 21 years of experience in audit, taxation, accounting and business advisory. From January 2006 to February 2010, he was the proprietor of Aston Wong & Co., Certified Public Accountants practising in Hong Kong. Since January 2010, he has been a director of his own corporate practice, namely Aston Wong CPA Limited. Mr. Wong has been appointed as an independent non-executive director of Singapore eDevelopment Limited whose shares are listed on Singapore Exchange Securities Trading Limited since 27 January 2017 and Roma Group Limited whose shares are listed on the Stock Exchange (Stock code: 8072) since 2 March 2016. Mr. Wong was an independent non-executive director of ZH International Holdings Limited whose shares are listed on the Stock Exchange (Stock code: 185) between 7 December 2009 and 27 July 2015.

Senior Management

Mr. WANG Guangce, aged 46, is currently the Vice Chairman (China) and Senior Vice President of the Group. Mr. Wang has been working in China Lerthai for over 20 years and served as Chief Executive Officer, Vice President on Development, Chairman on Business and other key positions. He is mainly responsible for the operation and management of the Group and has extensive management experience in project management, business solicitation, operation, marketing and property management. He successfully developed the projects on Tangshan Pelagic Mall (唐山遠洋城), Shijiazhuang Lerthai (石家莊勒泰), Tangshan Lerthai (唐山勒泰), Handan Lerthai (邯鄲勒泰) and other large-scale complexes and successfully issued the first ABS without single subject credit rating in China. He is the Vice Chairman of Promoting Development Alliances. Mr. Wang holds a Master's degree in Business Administration from The Open University of Hong Kong and an Executive Master of Business Administration (EMBA) degree from China Europe International Business School. He was elected as a member of the Standing Committee of the CPPCC of Shijiazhuang City, a representative of the People's Congress of Chang'an District and was awarded the honorary title of top 10 economic figures in the 40 years of reform and opening of Shijiazhuang City in 2018.

Ms. GUO Niya, aged 37, is the Senior Vice President of the Group and is responsible for the administration and human resources management of the Group. She has rich management experience in the examination and analysis on organizational management and control, talent team building, human resources evaluation and performance enhancement. Previously, Ms. Guo served as the President of the Property Department of the Group, responsible for brand operation and information-oriented establishment and has years of practical experience in the entire process of commercial property development and management. She has been working in China Lerthai for over 15 years. Ms. Guo holds a Master's degree in Business Administration from Peking University and an EMBA from the PBC School of Finance at Tsinghua University and is a tutor in professional master's degree in accounting (MPAcc) at Peking University. Ms. Guo was also a member of the 11th and 12th CPPCC of Hebei province and was awarded the influential property figure of the year in China in 2017.

Mr. GUO Yunzhang, aged 38, is the Vice President of the Group and is responsible for asset preservation and domestic legal compliance of the Group. He has extensive experience in laws, compliance and asset reorganization and assisted the Group in issuing the first ABS without single subject credit rating in China successfully. Mr. Guo is a standing member of Promoting Development Alliances and has been working in China Lerthai for over 9 years. He holds a Master's degree in Business Administration and Bachelor's degree in Laws from Renmin University of China and is currently a representative of the 14th people's congress of Shijiazhuang City and an arbitration member of Shijiazhuang Arbitration Commission.

Ms. LIANG Jinran, aged 41, is currently the Vice President of the Group and is mainly responsible for the planning, business solicitation, operation, marketing, property management as well as soliciting tenants for office buildings and has over 20 years of practical experience. Ms. Liang has been working in China Lerthai for over 20 years and served as General Manager, Vice President on Investment, Commercial President and other key positions. She successfully built Lerthai Department Store into a model fashion department store in Tangshan City. The project on Shijiazhuang Lerthai Center, a large-scale complex, has become a benchmark commercial project in Northern China. She assisted in issuing the first ABS without single subject credit rating in China and attracted various industry alliances to learn from. Ms. Liang is studying for the EMBA in Tsinghua University and was elected as a member of the CPPCC of Chang'an District of Shijiazhuang City, Vice Chairman of Hebei Property Management Institute and was awarded the "Innovative Figure in Business Breakthroughs", the "Outstanding Female Entrepreneur" and other honorary titles.



Profiles of Directors and Senior Management

Mr. LI Guoxiang, aged 44, is currently the General Manager of Tangshan Lerthai. Mr. Li has been working in China Lerthai for over 20 years and served as General Manager on Plans, Vice President on Business Attraction and Operation, Commercial President and other key positions and is mainly responsible for the preliminary preparation, planning and design, business solicitation and market management, opening ceremonies, operation management, property management, office building leasing and other works. Mr. Li has extensive practical experience in supermarkets, department stores, shopping malls, various commercial complexes and has successfully developed projects on Tangshan Pelagic Mall (唐山遠洋城), Shijiazhuang Lerthai (石家莊勒泰), Tangshan Lerthai (唐山勒泰), Handan Lerthai (邯鄲勒泰) and other large-scale complexes. He was appointed as a distinguished lecturer and deputy secretary general of The Asia Pacific School of Business (亞太商學院) in the Beijing-Tianjin-Hebei region and a standing member of the National Real Estate Manager Alliance and was awarded as an “Outstanding Entrepreneur” in Handan City, an “Outstanding Entrepreneur” in Tangshan City and a pioneer worker in property service industry in Tangshan City, making outstanding contributions to the development of the industry.

Mr. ZHAO Bencai, aged 46, is currently the Vice President of the Capital Operation Department of the Group, responsible for the capital operation of the Group, including asset mergers and acquisitions (“M&As”), ABS, M&As funds operation and the investigation and research on real estate investment trusts (REITs) and capital market. Mr. Zhao joined China Lerthai in 2007 and has been fully responsible for the capital operation and financial related works of the Group. He holds a postgraduate’s degree in accounting from Xiamen University and is a certified public accountant in China and an international Certified Commercial Investment Member. Mr. Zhao has extensive experience in commercial real estate investment and M&As, asset management, ABS and real estate trust funds in Greater China.

Mr. WONG Shui Yeung, aged 48, is currently the Group’s Company Secretary. He served as the Financial Controller and Chief Finance Officer of the Group during the period from September 2016 to November 2018. He is a practising member and fellow of Hong Kong Institute of Certified Public Accountants and a member of Hong Kong Securities and Investment Institute, and holds a bachelor degree in business administration majoring in accounting from the Hong Kong Baptist University. He has over 20 years’ experience in accounting, auditing, corporate finance, corporate investment and development, and company secretarial practice. Prior to joining the Group, Mr. Wong was the chief financial officer of ZH International Holdings Limited (Stock Code: 185) from 2001 to 2016, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Wong was also the chief financial officer of SingHaiyi Group Limited (Stock Code: 5H0) from 2009 to 2013, the shares of which are listed on the Catalist of the Singapore Exchange Securities Trading Limited.

Corporate Governance

The Company is committed to maintain high standards of corporate governance in order to ensure high transparency and protection of interests of the shareholders and the Company as a whole. The Company has adopted the code provisions and certain recommended best practices (with amendments from time to time) as set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

Upon review of the corporate governance practice of the Company, the Board believed that the Company has applied the principles in the CG Code and complied with the code provisions of the CG Code during the year. None of the Directors was aware of any information that would reasonably indicate that the Company was during the year not in compliance with the code provisions of the CG Code, except for the deviations as follows:

Under code provision A.1.1 of the CG Code, which requires that regular board meetings should be held at least four times a year. The Board met regularly for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company as well as on an ad hoc basis, as required by business needs. During the year ended 31 December 2018, the Board did not have any material issues need to discuss and met three times of which two were regular Board meetings. The Company will endeavour to hold at least four regular Board meetings, at approximately quarterly intervals, during the year ending 31 December 2019.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yang Longfei was appointed as the Chairman and the chief executive officer of the Company (the “CEO”) on 28 February 2013 and 20 March 2014 respectively. Before Ms. Zhang Yan’s appointment as the Co-CEO on 27 December 2018, the Group did not separate the roles of the Chairman and the CEO. The Board considered that Mr. Yang had in-depth knowledge and experience in the property investment and development industry and was the most appropriate person to manage the Group, therefore, the roles of Chairman and CEO by the same individual, Mr. Yang, was beneficial to the business prospects and management of the Group.

Under Rule 3.10(1) and Rule 3.21 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the audit committee of every listed issuer must comprise a minimum of three members. After Mr. Hung Ka Hai Clement’s resignation on 30 September 2018 and before the appointment of Mr. Wong Hon Kit and Mr. Wan Kah Ming on 27 December 2018, the Board and audit committee of the Company comprised only two independent non-executive Directors.

Save as the above, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code during the year.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as a code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year.

Board of Directors

Structure

As at the date of this annual report, the Board comprised two executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board is as follows:

Executive Directors

Mr. Yang Longfei (*Chairman and Chief Executive Officer*)

Ms. Zhang Yan (*Vice Chairlady and Co-Chief Executive Officer*) (appointed on 1 April 2018)

Non-executive Director

Mr. Yang Shao Ming (appointed on 27 December 2018)

Independent Non-executive Directors

Mr. Wan Kah Ming (appointed on 27 December 2018)

Mr. Wong Hon Kit (appointed on 27 December 2018)

Mr. Wong Tat Keung (appointed on 30 November 2018)

The number of independent non-executive Directors represents more than one-third members of the Board. The profiles of all Directors are set out on pages 17 to 18 of this annual report. Save as disclosed in this annual report, there is no other relationship among members of the Board, including financial, business, family or other material/relevant relationship. The independent non-executive Directors are highly experienced professionals and businessmen with a broad range of expertise and experience in accounting, finance, legal and business management and one of them has appropriate professional accounting qualification as required by the Stock Exchange.

The Board is responsible for directing and supervising the Company's affairs. Each Director acts in good faith for the best interest of the Company. The Directors are collectively and individually responsible to the Company for the manner in which the affairs of the Company are managed, controlled and operated. They had devoted sufficient time and attention to the Company's affairs during the year.

All the Directors, including the independent non-executive Directors, must retire by rotation at least once every three years, and no Director shall hold office for a continuous period in excess of three years, or past the third annual general meeting, following the Director's appointment or re-election, whichever is longer, without submitting himself/herself for re-election at the annual general meeting, under the articles of association of the Company (the "Articles of Association"). As such, the term of office of each Director has been specified under the Articles of Association.

Assistance to Directors in Decision Making

Throughout their period in office, the Directors have been informed of the Group's business, the competitive and regulatory environments in which it operates and other changes affecting the Group and the industry it operates in as a whole. They have also been advised on their legal and other duties and obligations as directors of a company and updated on changes to the legal and governance requirements of the Group and upon themselves as the Directors.

The Directors are given access to the company secretary of the Company (the "Company Secretary") or independent professionals for advice at the Company's expense, when they deem it is necessary in order for them to carry out their responsibilities from time to time.

Conduct of Meetings

The Directors are consulted and properly briefed for matters to be included in the meeting agenda. The Board is supplied with relevant information as well as reports relating to operational and financial performance of the Group before each regular Board meeting. At least 14 days' notice of a regular Board meeting is given to all Directors providing them with the opportunity to attend the meeting. For regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are dispatched to all Directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and will be adequately prepared for the meeting. Senior management is invited to attend the meeting to address the Board members' queries. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making purpose.

The Chairman has delegated the responsibility to the Company Secretary for drawing up and approving the agenda for each Board meeting, taking into account of any matter proposed by the other Directors for inclusion in the agenda.

The proceedings of the Board at its meetings are generally monitored by the Chairman who would ensure that sufficient time is allocated for discussion and consideration of each item on the agenda. Equal opportunities are given to each Director to express his/her views and concerns.

Each Director has to declare his/her interest and to abstain from voting on any board resolution in which he/she or any of his/her associates has a material interest pursuant to the Articles of Association and the Companies Ordinance (Cap. 622, Laws of Hong Kong).

All Directors have full access to the advice and services of the Company Secretary to ensure the Board's procedures, rules and regulations are followed. Draft and final versions of minutes of each Board meeting in sufficient details are sent to the Directors for comments and records within reasonable time after the meeting is held. The minutes of the Board and the Board committees' meetings are kept by the Company, which are open for inspection by the Directors on reasonable notice.

During the year, 3 Board meetings, and 2 general meetings were held. The Company Secretary and the Company's senior management had attended the Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting, finance and business. The individual attendance of each Director at the Board meetings and general meeting held during the year is as follows:

Board meetings	No. of Board meetings attended/held (Percentage of attendance in total)	No. of General meetings attended/held (Percentage of attendance in total)
<i>Directors during the year</i>		
<i>Executive Directors</i>		
Mr. Yang Longfei	3/3 (100%)	2/2 (100%)
Mr. Yang Shao Xing Max (resigned on 27 December 2018)	3/3 (100%)	2/2 (100%)
Ms. Zhang Yan (appointed on 1 April 2018)	1/1 (100%)	2/2 (100%)
<i>Non-executive Director</i>		
Mr. Yang Shao Ming (appointed on 27 December 2018)	N/A	N/A
<i>Independent Non-executive Directors</i>		
Mr. Hung Ka Hai, Clement (resigned on 30 September 2018)	3/3 (100%)	2/2 (100%)
Mr. Lo Wai Hung (resigned on 30 November 2018)	3/3 (100%)	2/2 (100%)
Ms. Shek Pui Michelle (resigned on 31 December 2018)	3/3 (100%)	2/2 (100%)
Mr. Wan Kah Ming (appointed on 27 December 2018)	N/A	N/A
Mr. Wong Hon Kit (appointed on 27 December 2018)	N/A	N/A
Mr. Wong Tat Keung (appointed on 30 November 2018)	N/A	N/A

Works Performed

During the year, besides attending the Board meetings to consider and make decision on corporate governance, risk management, statutory compliance, accounting, finance and business matters, the Directors had brought professional opinion and judgement on the Company's strategy, performance and standards of conduct; had taken the lead where potential conflicts of interests arose; had served on Board committees; endorsed on various corporate governance related matters and policies; had ensured that the Board maintained high standards of financial and other mandatory reporting; carried out reviews on matters reported by the Board committees, and had provided adequate checks and balance to safeguard the interests of shareholders in general and the Company as a whole.

During the year, the independent non-executive Directors had actively participated in the Board meetings, brought independent opinion and judgment, and given their comments to the information or reports submitted to the meetings.

Besides attending the Board or committee's meetings, in order to make timely decision and have effective implementation of the Company's policy and practice, the Board had also adopted written resolutions signed by majority Directors to make decision on corporate affairs from time to time.

As part of the continuing process on supervising the Company's affairs, the Directors, acting through by the audit committee of the Company (the "Audit Committee"), had reviewed the adequacy of resources, qualifications and experience of the Company's accounting staff and financial reporting function.

Directors' Confirmation

The Company has received, from each independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considered that all the independent non-executive Directors are independent.

Chairman and Chief Executive Officer

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual.

Before Ms. Zhang Yan's appointment as the Co-CEO on 27 December 2018, the Group did not separate the roles of the Chairman and the CEO. Mr. Yang was appointed as the Chairman and the CEO on 28 February 2013 and 20 March 2014 respectively. The Board considered that Mr. Yang had in-depth knowledge and experience in the property investment and development industry and was the most appropriate person to manage the Group, therefore, the roles of Chairman and CEO by the same individual, Mr. Yang, during the period before the appointment of Ms. Zhang was beneficial to the business prospects and management of the Group.

Board Committees

The Board has established the Audit Committee, remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee") of the Company with defined roles and terms of reference.

Audit Committee

Structure

The Audit Committee has been established since December 2000 with the roles to assist the Board in establishing formal and transparent arrangements for considering how it will apply the financial reporting and the internal control principles and for maintaining an appropriate relationship with the Company's external auditor (the "Independent Auditor"). It acts in an advisory capacity and makes recommendations to the Board.

All the Audit Committee members possess diversified industry experience. The chairman of the Audit Committee has appropriate professional qualification, accounting or related financial management expertise as required by the Listing Rules.

As at the date of this annual report, the Audit Committee is made up of all the independent non-executive Directors, namely:

Mr. Wong Tat Keung (*Chairman*)

Mr. Wan Kah Ming

Mr. Wong Hon Kit

Function

The Audit Committee's terms of reference can be found on the websites of the Company and the Stock Exchange. The major duties of the Audit Committee are summarised below:

- i) to make recommendations to the Board on the appointment, re-appointment and removal of the Independent Auditor, review and monitor their independence and objectivity as well as the effectiveness of the audit process;
- ii) to monitor the integrity of the interim and annual consolidated financial statements, reports and accounts of the Group, and to review any significant financial reporting judgments contained in them;
- iii) to review and ensure the effectiveness of the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's risk management and internal control systems; and
- iv) to develop and review the Company's policies and practices on corporate governance, make recommendations to the Board and to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Conduct of Meetings

The Audit Committee shall meet at least twice each year. The Company prepares and delivers an information memorandum that includes all relevant information about the meetings to the Audit Committee members at least 3 days prior to such meetings.

During the year, the Audit Committee members reviewed the information memorandum with due care and discussed with the Company's senior management during the meetings.

During the year, the Audit Committee held 2 meetings with the presence of the Company's senior management. Minutes drafted by the Company Secretary were circulated to the Audit Committee members for comments within a reasonable time after each meeting. Executed minutes were kept by the Company and copies of the minutes were sent to the Audit Committee members for records.

Individual attendance of each Audit Committee member at the meetings held during the year is as follows:

Members	No. of Audit Committee meetings attended/held (Percentage of attendance in total)
Mr. Lo Wai Hung (resigned on 30 November 2018)	2/2 (100%)
Mr. Hung Ka Hai, Clement (resigned on 30 September 2018)	2/2 (100%)
Ms. Shek Pui Michelle (resigned on 31 December 2018)	2/2 (100%)
Mr. Wan Kah Ming (appointed on 27 December 2018)	N/A
Mr. Wong Hon Kit (appointed on 27 December 2018)	N/A
Mr. Wong Tat Keung (appointed on 30 November 2018)	N/A

Works Performed

The works performed by the members of the Audit Committee during the year are summarised below:

- i) reviewed and considered the accounts and consolidated financial statements of the Group for the year ended 31 December 2017 and interim accounts for 2018;
- ii) reviewed, discussed and agreed with the Independent Auditor in respect of the audit fee for the year; the terms of the engagement letters; the nature, scope of audit and reporting obligations for the year;
- iii) reviewed and assessed the adequacy and effectiveness of the Group's financial reporting and controls, internal control procedures and risk management systems;
- iv) reviewed the corporate governance practices and monitored the progress of compliance of the CG Code and its disclosure in the Corporate Governance Report;
- v) reviewed the performance of the properties of the Group for the year;
- vi) reviewed the adequacy of resources, qualifications and experience of the staff in accounting and financial reporting function, and the training programmes and budget;
- vii) discussed with Independent Auditor with respect to the accounting principles and practices adopted by the Group, compliance with the Listing Rules and other financing reporting requirements;
- viii) discussed and agreed on the change of auditors and reviewed the nature and scope of the annual audit;
- ix) considered and approved the connected transactions and continuing connected transactions for the year.

Overall, the Audit Committee is satisfied with the condition of the Company, including the corporate governance practices, internal control system, qualifications and experience of the staff in accounting and financial reporting function, and the training programmes and budget.

One of the specific works vested upon the Audit Committee is to develop and review the Company's policies and practices on corporate governance. Upon reviewed by the Audit Committee and endorsed with approval by the Board, the main policy for the Company's corporate governance is to develop the Company itself as a sustainable and competitive company in the business sector in the interests of the Company and the shareholders as a whole, with an aim for a prudent and profitable development and long term achievement of growth through the well-established corporate governance principles, management and practices. As a listed company in Hong Kong, the Company is obliged to follow the principles, code provisions and recommended best practices (if applicable) set forth in Appendix 14 to the Listing Rules as the substantial requirement on achieving a high corporate governance standard as well as a fundamental part of the corporate governance policy of the Company.

Remuneration Committee

Structure

The Remuneration Committee has been established since June 2005 with the roles to assist the Board in reviewing and determining the framework or broad policy for remuneration packages of the Directors and senior management, overseeing any major changes in employee benefit structures and considering other topics as defined by the Board.

As at the date of this annual report, the Remuneration Committee is made up of two independent non-executive Directors and one executive Director, namely:

Mr. Wong Hon Kit (*Chairman*)

Mr. Wong Tat Keung

Mr. Yang Longfei

Function

The principal responsibilities of the Remuneration Committee are as follows:

- i) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedures for developing remuneration policy;
- ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights, compensation payments (including any compensation payable for loss or termination of their office or appointment);
- iii) to make recommendations to the Board on the remuneration of executive Directors; and
- iv) to review and make recommendations to the Board for approving the services contracts/agreements of all Directors.

The Remuneration Committee's terms of reference can be found on the websites of the Company and the Stock Exchange.

The Remuneration Committee would seek internal and external professional advices about its proposals on remuneration packages of individual Directors and senior management if considered necessary.

Conduct of Meetings

During the year, the Remuneration Committee held 1 meeting to consider and recommend, among others, to the Board on the annual remuneration of the Directors and senior management for the year.

Individual attendance of each committee member at the meetings held during the year is as follows:

Members	No. of Remuneration Committee meetings attended/held (Percentage of attendance in total)
Mr. Hung Ka Hai, Clement (resigned on 30 September 2018)	1/1 (100%)
Mr. Yang Longfei	1/1 (100%)
Ms. Shek Pui Michelle (resigned on 31 December 2018)	1/1 (100%)
Mr. Wong Hon Kit (appointed on 27 December 2018)	N/A
Mr. Wong Tat Keung (appointed on 30 November 2018)	N/A

Works Performed

The works performed by the members of the Remuneration Committee during the year are summarised below:

- i) considered and made recommendations to the Board for endorsement of the remuneration policy of the Company and letters of appointment of the Directors and senior management with major terms and conditions, to comply with the CG Code; and
- ii) assessed performance of executive Directors and considered and made recommendations to the Board on the remuneration of the Directors and senior management for the year.

Details of the amount of Directors' emoluments during the year are set out in note 15 to the consolidated financial statements in this annual report.

Nomination Committee

Structure

The Nomination Committee was established in 2012 with the role to lead the process and to make recommendations for appointments to the Board, whether as additional appointment or to fill up the casual vacancy of directorship as and when they arise, in the light of challenges and opportunities facing the Company, as well as business development and requirements of the Company.

As at the date of this annual report, the Nomination Committee is made up of two independent non-executive Directors and one executive Director, namely:

Mr. Wong Tat Keung (*Chairman*)

Mr. Wong Hon Kit

Mr. Yang Longfei

Function

The principal responsibilities of the Nomination Committee are as follows:

- i) to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- ii) to assess on the independence of the independent non-executive Directors; and
- iii) to make recommendations to the Board on the appointment or re-appointment and succession planning for Directors and to identify individuals suitably qualified to become Board members.

The Nomination Committee has adopted a "Policy, Procedure and Process, and Criteria for Nomination of Directors" setting out the approach to achieve diversity on the Board. The basic nomination policy is to keep under review the leadership needs of Board as the core organ of the Company, both executive and non-executive, with a view to ensure the continued stability of the Company and continued ability of the Board to lead the Company's business and development and to compete effectively in the business sector, taking into account the challenges and opportunities facing the Company currently and in the future. The Nomination Committee may evaluate the balance of skills, experience and knowledge in the Board members and may seek independent professional advice or assistance including engagement of recruitment agent or external research consultancy, or use open advertising or other appropriate means in appropriate circumstances at the Company's expense to assess a wide base of potential candidates to become a director of the Company.

For the purpose of implementation of the policy on Board diversity, the following measurable objectives were adopted:

- (A) at least one-third of the members of the Board shall be independent non-executive directors;
- (B) at least one of the members of the Board shall possess accounting or other professional qualifications;
- (C) certain members of the Board shall be professionals recognized in both China and Hong Kong.

The Nomination Committee monitors the implementation of this policy and reviews the same as appropriate to ensure the effectiveness of the policy. The Nomination Committee will discuss any revises as may be required and submit the proposed amendments to the Board for approval.

The Nomination Committee's terms of reference can be found on the websites of the Company and the Stock Exchange.

Conduct of Meetings

During the year, the Nomination Committee held 1 meeting.

Individual attendance of each committee member at the meetings held during the year is as follows:

Members	No. of Nomination Committee meetings attended/held (Percentage of attendance in total)
Mr. Hung Ka Hai, Clement (resigned on 30 September 2018)	1/1 (100%)
Mr. Yang Longfei	1/1 (100%)
Ms. Shek Pui Michelle (resigned on 31 December 2018)	1/1 (100%)
Mr. Wong Hon Kit (appointed on 27 December 2018)	N/A
Mr. Wong Tat Keung (appointed on 30 November 2018)	N/A

Works Performed

The principal works performed by the members of Nomination Committee during the year are summarised below:

- i) considered and reviewed the policy, procedures and process and criteria for the nomination of the Directors and made recommendations to the Board for its endorsement;
- ii) reviewed the structure, size and composition of the Board;
- iii) made recommendations to the Board on the retirement and re-election of Directors in the 2018 annual general meeting; and
- iv) made recommendations to the Board on the appointment of Directors.

Nomination Procedures and Process

The Nomination Committee may nominate any person that having the relevant qualities and criteria as determined by the Nomination Committee as well as required by the Companies Ordinance (Cap. 622, Laws of Hong Kong), the Listing Rules or other applicable laws and regulations in Hong Kong to become a director (whether executive or non-executive) whenever (i) the executive Director(s) or the Nomination Committee is/are of the view that according to the current or prospective business development and requirements of the Company; or (ii) for succession planning for the Board, there is a demand for an appointment of new Director as an addition to the Board or to fill up the casual vacancy in the Board.

During the nomination process, the Nomination Committee may evaluate the balance of skills, experience, independence and knowledge in the Board members and may prepare a description or job specification of the role and capabilities required for any new or particular appointment to the Board if it thinks fit and proper. The Nomination Committee may seek independent professional advice or assistance including engagement of recruitment agent or external research consultancy, or use open advertising or other appropriate means in appropriate circumstances at the Company's expense to assess a wide base of potential candidates to become a Director.

Management Functions

Basically, during the year, the Board and its committees were responsible on the following matters:

- (i) oversee the general operations of the Company;
- (ii) ensure effective implementation of the Board's decisions and corporate governance, with the assistance of the Company Secretary;
- (iii) ensure the short and long term sustainability of the business;
- (iv) lead the performance of the management of the Company in meeting agreed goals and objectives and monitor the reporting of performance;
- (v) provide coherent leadership of the Company;
- (vi) satisfy itself on the integrity of financial information and on robustness and defensibility of the financial controls and systems of risk management and carry out review thereon;
- (vii) scrutinise the performance of the management of the Company in meeting agreed goals and objectives and monitor the reporting of performance;
- (viii) constructively challenge and help developing proposals on business strategy;
- (ix) uphold high standards of corporate governance and compliance;
- (x) participate in the process of dealing with any conflict of interest between the Company and the Director, his/her associates or substantial shareholders who has material interest in the transaction with the Company;

- (xi) attend the shareholders' meeting to help developing a balanced understanding of their issues and concerns; and
- (xii) give independent opinion and advice to the shareholders where required by the Listing Rules or any applicable laws and regulations on the business affairs of the Company.

During the year, the management was mainly responsible for:

1. daily investment, management, operation and administration of the Company;
2. compliance with the rules and regulations, including the Listing Rules, as well as to implement corporate governance policy determined by the Board;
3. draw the Directors' attention on the new corporate governance requirements;
4. organise the Board and various meetings for the Directors' discussion;
5. prepare various reports to the Board for review and decision making; and
6. organise training for the Directors.

During the year, the management provided all members of the Board with monthly updates in accordance with the code provision C.1.2 of the CG Code.

Directors' Continuing Professional Development

Continuing Professional Development

During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills through suitable trainings. These trainings included but are not limited to seminars and online debriefs regarding taxation, compliance, and global economic development. The participation in such trainings is to ensure that their contribution to the Board remains informed and relevant.

Auditor's Remuneration

Analysis of remuneration in respect of audit and non-audit service provided by the external auditor, ZHONGHUI ANDA CPA Limited and non-audit service provided by Deloitte Touche Tohmatsu for the year is as follows:

Nature of Service	Amount HK\$'000
Deloitte Touche Tohmatsu (resigned on 6 December 2018)	
Non-audit Service	1,330,000
ZHONGHUI ANDA CPA Limited (appointed on 6 December 2018)	
Audit Service	1,600,000
	2,930,000

Financial Reporting

The Company aims to present a clear, balanced and understandable assessment of its financial position and prospects. Financial results are announced as early as possible, with interim report and annual report as well as other price-sensitive announcements and financial disclosures published as required under the Listing Rules.

The management provides explanation, information and progress update to the Board for it to make an informed assessment of the financial and other issues put before the Board for approval and consideration.

Throughout the year, the Directors had selected appropriate accounting policies and applied them consistently. The Directors acknowledge their responsibilities for preparing the financial accounts of the Group which give a true and fair view and are in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. A statement by the Independent Auditor about their reporting responsibilities for the year is set out in this annual report.

Internal Control and Risk Management

Scope of Works

The Board recognises its responsibility for establishment, maintenance and review of the internal control system that provides reasonable assurance on the reliability and integrity of financial and operational information, effective and efficient operations, safeguarding of assets and compliance with laws and regulations. The internal control system is designed to manage rather than to eliminate all risks of failure while its goal is to provide reasonable, not absolute, assurance regarding the achievement of organisational objectives. The Audit Committee is responsible to assist the Board for the annual review of the effectiveness of the internal control system of the Group.

During the year, the Company has engaged an independent external consulting firm to perform a review of the internal control system of the Group, which includes evaluation of control environment, risk assessment, control activities, information and communication and monitoring activities, evaluation of the internal control system by business cycles and evaluation of the company secretarial record, the Board's practice and annual report disclosure against the requirement of the CG Code. Such report is addressed to the Board to assist the Board in the evaluation of the internal control system of the Group.

Audit Committee's and Board's Review

The Audit Committee and the Board had reviewed the financial control, internal control and risk management systems of the Company for the year. It considered the internal control system effective and adequate as they allowed the Board to monitor the Group's overall financial position and to provide reasonable assurance that assets are safeguarded against unauthorised use or material financial misstatement; transactions were executed in accordance with management's authorisation; and the accounting records were reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities. Further reviews will be conducted on the request of any Audit Committee member, Company Secretary, or any Director.

Company Secretary

Mr. Wong Shui Yeung (“Mr. Wong”) has been appointed as the Company Secretary since 12 December 2016. Mr. Wong reports to the CEO directly and is responsible to the Board for ensuring that the Board procedures, applicable laws, rules and regulations are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully appraised of the relevant corporate governance developments relating to the Group and facilitating the induction and professional development of the Directors.

According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training for the year.

Shareholders’ Rights

The Company is committed to safeguarding the shareholders’ and the Company’s interests as a whole and encouraging shareholders to attend general meetings of the Company to participate in the important decisions of the Company for which the shareholders’ approval is required under the Listing Rules and the Companies Ordinance. The Company regards general meetings of the Company as an important event as it provides an important opportunity for direct communication between the Board and the shareholders. The Directors, including the independent non-executive Directors were available to answer questions at the extraordinary general meeting and annual general meeting of the Company held on 17 April 2018 and 28 June 2018 respectively. The chairmen of the Audit Committee, Remuneration Committee and Nomination Committee and/or the Independent Auditor were also available at the general meetings of the Company to address shareholders’ queries.

The following set forth the procedures on (a) how shareholders can convene an extraordinary general meeting of the Company (“EGM”), (b) the procedures by which enquiries may be put to the Board and sufficient contact details to enable these enquires to be properly directed; and (c) the procedures and sufficient contact details for putting forward proposals at shareholders’ meetings.

(a) Procedures on how shareholders can convene an EGM

1. Any registered shareholder in his/her sole name or the registered shareholders jointly or collectively (whose name(s) appear in the register of the members of the Company) holding at the date of the deposit of the requisition not less than one-twentieth (5%) of the issued and paid up capital of the Company carrying the right to vote at general meeting of the Company may send a requisition to the Company to convene an EGM.
2. The requisition must state the objects of the EGM, and must be signed by the requisitionists and deposited at the registered office of the Company at Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for the attention of the Company Secretary.
3. The request will then be verified with the share registrar of the Company. Upon receiving confirmation from the share registrar of the Company that the request is in order, the Company Secretary will tender the request of the shareholder to the Board to include the resolution in the notice and agenda for the EGM.

4. Upon receiving such requisition, the Directors shall, within 21 days from the date of the deposit of the requisition, proceed to convene the EGM. The EGM shall be held on a day not more than 28 days after the date on which the notice convening the meeting is given.
 5. If the Directors fail to convene the EGM as requisitioned by the shareholder concerned in the aforesaid manner, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the EGM, but any EGM so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition.
 6. Where the EGM is held by the requisitionists, the requisitionists may claim from the Company any reasonable expenses incurred through the Directors' default.
- (b) Procedures by which enquiries may be put to the Board and sufficient contact details to enable these enquiries to be properly directed
1. For any enquiry that a shareholder may put to the Board otherwise than at the general meetings of the Company to be held from time to time, the shareholder concerned should send the enquiry to the Board by means of letter to the registered office of the Company at Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for the attention of the Company Secretary.
 2. The Company Secretary will collect and read the letters received from the shareholders.
 3. Any enquiry to the Board shall be made by means of a letter bearing the address, contact telephone number and signature of the enquirer who must be registered shareholder with his/her name appears in the register of members of the Company. No enquiry by other means like telephone, fax or email will be entertained.
 4. Any enquiry should confine to any factual information contained in the announcement, circular, interim or annual reports of the Company published within the recent 3 years.
 5. Any enquiry will be replied within 21 days in any ordinary case. If the Board regards the shareholder's enquiry is a complicate one, the reply will be given within 1 month or any extended period for reply that the Directors consider fit and proper.
 6. No enquiry shall be made by the shareholder on any publication, hearsay or rumour come from the unidentified source concerning the business affairs of the Company. The Board may consider issuing an announcement to the general public whenever it is necessary under the requirements of the Listing Rules or other applicable laws and regulations to clarify any publication, hearsay or rumour that may appear in the newspaper or from any source that the Company may have known.
 7. Reply by the Board to the shareholder concerning his/her enquiry is privy to the shareholder concerned and no such reply shall be made public without the consent of the Company and the Company reserves the legal right to pursue for any breach thereof.

8. The Board reserves the right to turn down the request for answering enquiries or giving any explanation thereof in case:
 - (a) answering to the enquiry will require disclosure of any confidential or price-sensitive information of the Company;
 - (b) answering to the enquiry will require disclosure of any information that the Board considers (i) it is unlawful to disclose them under the current laws and regulations that the Company is subject to, including the laws and regulations of the place where the Company is incorporated or the place where the main business of the Company is operating or the place in which the Company is having its securities listed therein; or (ii) in the interest of the Company it should not be disclosed; or (iii) it is unreasonable to disclose them; and
 - (c) the enquiries themselves contain any defamatory or irresponsible statements with malice, or the enquiries are of irrelevance or of prejudicial or vexatious nature or showing any element of abuse of the rights by the shareholder concerned.
 9. At the general meeting of the Company to be held from time to time, any shareholder, his/her proxy or corporate representative may raise any enquiry verbally to the Directors present at the general meeting concerning any business to be transacted at the general meeting of the Company as set forth in the notice and agenda of the general meetings of the Company. The Directors presented may answer verbally the enquiries raised by the shareholders at the general meeting of the Company as the Directors consider appropriate. The Directors may decline to answer any enquiry based on the factors mentioned above in item 8, or irrelevant to the core theme of the general meeting purpose, or in order to allow the general meeting of the Company to be conducted in the orderly and lawful manner without undue disruption and to achieve a good sense of the general meeting of the Company.
 10. Any reply by the Board or by any of its members (whether acting collectively or individually and in whatsoever manner or circumstances) to the shareholder concerned must not be treated as any advice for investment in the securities of the Company or for any other purpose whatsoever and the Board and any of its members and the Company disclaim any liability that may be suffered by the shareholder concerned or any third party as a result of or arising from any reliance on any reply made by the Board or any of its members on behalf of the Company to the enquiries raised by the shareholder concerned.
- (c) Procedures and sufficient contact details for putting forward proposals at shareholders' meetings
1. Any number of registered shareholders (whose name(s) appeared in the register of members) representing not less than one-fortieth (2.5%) of the total voting rights of all members having at the date of the requisition a right to vote at the meeting to which the requisition relates, or not less than 50 members holding shares in the Company on which there has been paid up an average number, of not less than HK\$2,000 (namely, such members holding between them a minimum of shares of the Company on which there has been paid up at least HK\$100,000), may request the Company to give to members of the Company a notice of any resolution which he/she/they may intend to move at the annual general meeting of the Company; and/or to circulate to members entitled to have notice of any general meeting of the Company sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolutions or the business to be dealt with at that general meeting of the Company.

2. A copy of the requisition signed by the requisitionists shall be deposited at the registered office of the Company at Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for the attention of the Company Secretary not less than 6 weeks before the general meeting of the Company (in case of a requisition requiring notice of a resolution) and not less than 1 week before the meeting (in case of any other requisition) and there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.
3. The request will be verified with the share registrar of the Company. Upon receiving confirmation from the share registrar of the Company that the request is in order, and provided that the shareholder(s) concerned have deposited a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement, the Company Secretary will tender the request of the shareholder to the Board to include the resolution in the notice and agenda for the annual general meeting of the Company.
4. Should the request be not in order after verification by the share registrar of the Company or the Company finds that the sum not reasonably sufficient to meet the Company's expenses, the Company is not bound to give notice of any such resolutions or to circulate any such statement. The shareholder will be advised accordingly and the proposed resolution will not be included in the agenda for the annual general meeting of the Company.

Regarding the "Procedures for shareholders to propose a person for election as a Director", please visit the website of the Company for details.

Investor Relations

Accountability and transparency are indispensable for ensuring good corporate governance and, in this regard, timely communication with the shareholders, including institutional investors, is crucial. The Company considers good investor relations as a key part of its operations and continues to promote investor relations and enhances communications with the investors.

The Company maintains a corporate website (<http://www.lerthai.com.hk>) to make the corporate information available on the internet to facilitate its communication with shareholders and to provide important information to the investing public, including corporate governance structure and terms of reference of Board committees.

The Company welcomes suggestions from investors and shareholders, and invites them to share their views and suggestions at info@lth.com.hk.

The Directors present to the members their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

Change of Company's Name

By a special resolution passed on 30 January 2019, the name of the Company was changed from "LT Commercial Real Estate Limited 勒泰商業地產有限公司" to "Lerthai Group Limited 勒泰集團有限公司" and the change of name of the Company has become effective on 15 February 2019.

Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were property development and investment, investment holding, securities investment and finance business.

An analysis of the Group's revenue and contribution from operations by business and geographical segments is set out in note 10 to the consolidated financial statements.

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and Management Discussion and Analysis on pages 4 to 13 of this annual report.

Possible risks and uncertainties that the Group may be facing are set out in the Management Discussion and Analysis on pages 13 to 16 and the Corporate Governance Report on pages 21 to 38.

Particulars of important events affecting the Group that have occurred since the end of the financial year 2018 are set out in Management Discussion and Analysis Section on page 16. An analysis of the Group's performance during the year is provided in the Five year Financial Summary on page 147 of this annual report. An environmental policy has been put in place to give due consideration to environment issues and minimise the impact of business operations on environment. In addition, a discussion on the Group's environmental policies and performance and an account of the Group's key relationships with its stakeholders will be included in the Environmental, Social and Governance Report to be published in the Company's website in late May 2019.

Compliance With The Relevant Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and the risk of non-compliance. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain strong working relationships with regulators through effective communications.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 55.

The Board did not recommend the payment of final dividend for the year (2017: Nil). No interim dividend was declared for the year (2017: Nil).

Segment Information

An analysis of the Group's revenue and contribution to profit or loss for the year by its principal activities is set out in note 10 to the consolidated financial statements.

Financial Summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 147.

Fixed Assets

Particulars of the movements of investment properties and property, plant and equipment are set out in notes 18 and 19 to the consolidated financial statements respectively.

Share Capital

Details in the share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 38 to the consolidated financial statements and the consolidated statement of changes in equity on page 58 respectively.

Purchase, Sale or Redemption of Listed Securities

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Charitable Donations

During the year, no charitable donations had been made by the Group (2017: HK\$115,000).

Major Suppliers and Customers

During the year, the Group's revenue represented rental income from investment properties and sales of properties and the total revenue of the top five customers accounted for less than 25% of the Group's total revenue.

The Group's top five suppliers accounted for approximately 47% of the total purchases for the year. In addition, the Group's largest supplier accounted for approximately 21% of the total purchases for the year.

At no time during the year have the then and current directors of the Company, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.



Directors

The Directors for the year ended 31 December 2018 and present directors were/are:

Executive Directors

Mr. Yang Longfei
Mr. Yang Shao Xing Max (resigned on 27 December 2018)
Ms. Zhang Yan (appointed on 1 April 2018)

Non-executive Director

Mr. Yang Shao Ming (appointed on 27 December 2018)

Independent Non-executive Directors

Mr. Hung Ka Hai Clement (resigned on 30 September 2018)
Mr. Lo Wai Hung (resigned on 30 November 2018)
Ms. Shek Pui Michelle (resigned on 31 December 2018)
Mr. Wan Kah Ming (appointed on 27 December 2018)
Mr. Wong Hon Kit (appointed on 27 December 2018)
Mr. Wong Tat Keung (appointed on 30 November 2018)

Pursuant to Article 101 of the Articles of Association, Mr. Yang Longfei as an executive Director will retire from office by rotation as the Director at the annual general meeting of the Company and being eligible, offer himself for re-election.

Pursuant to Article 92, of the Articles of Association, Mr. Yang Shao Ming as non-executive Director, Mr. Wan Kah Ming, Mr. Wong Hon Kit and Mr. Wong Tat Keung as independent non-executive Directors will retire from office by rotation as the Directors at annual general meeting of the Company and being eligible, offer themselves for re-election.

Directors' Service Contracts

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

Directors of Subsidiaries

The names of all Directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2018 or during the period from 1 January 2018 to 29 March 2019 are set out below and those marked with an asterisk * are Directors as at 29 March 2019.

Chiu Francis

*Dai Hui

Fan Lei

*Guo Niya

Ip Tsz Tim

*Jennifer Cowdroy

Lee Wai Chung

*Li Guoxiang

*Wong Guangce

*Wong Kennedy Ying Ho

*Wong Weng Fai

*Yang Longfei

*Yang Shao Ming

*Yang Shao Xing, Max

*Zhang Min

Share Award Scheme

The Company has adopted the share award scheme (the "Share Award Scheme") to recognise the contributions of certain employees and help retain them for the Group's operations and further development. The Share Award Scheme was adopted by the Board on 8 August 2014 ("Adoption Date") and shall remain in force for a period of 10 years. The maximum number of shares which can be awarded under the Share Award Scheme is 10% (ie, 33,876,598 shares) of Shares in issue as at the Adoption Date and the maximum number of shares which can be awarded to a selected employee in the Share Award Scheme is 1% (ie, 3,387,659 shares). The rules and trust deed of the Share Award Scheme are available on the Company's website.

Further details of the Share Award Scheme are set out in note 40(a) to the consolidated financial statements.

Share Option Scheme

On 22 August 2014, the Company adopted the share option scheme (the "Share Option Scheme"), pursuant to which the Board may, at its discretion, grant options to any Directors and any employee of the Company or the Group, who, in the absolute opinion of the Board, have contributed or will contribute to the Company or the Group.

Based on the 338,765,987 shares in issue as at the date of adoption of the Share Option Scheme, the maximum number of shares to be issued upon the exercise of options that may be granted under the Share Option Scheme are 33,876,598 shares, being 10% of the shares in issue and the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Company is 30% of the shares in issue from time to time. The Share Option Scheme will remain in force for a period of 10 years commencing from 22 August 2014, the date of adoption of the Share Option Scheme. The Share Option Scheme is available on the Company's website.

On 16 May 2016, the Company granted 33,876,590 share options to the selected grantees under the Share Option Scheme, amongst which 3,387,659 share options were granted to each of Mr. Yang Shao Xing Max, the former executive Director and Ms. Zhang Yan, the executive Director.

Further details of the Share Option Scheme are set out in note 40(b) to the consolidated financial statements.

Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations

As at 31 December 2018, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 (the "Model Code") to Listing Rules were as follow:

Ordinary shares of the Company

Name of directors	Capacity/nature of interests	Number of Shares (ordinary share) held	Number underlying share(s) held	Percentage of total number of Shares in issue (approximately)
Yang Longfei (Note 1)	Beneficial owner	162,222,222 (L)	393,777,777 (L)	80.8%
	Interest in controlled corporation	254,055,888 (L)	–	36.9%
Zhang Yan (Note 2)	Beneficial owner	–	3,387,659 (L)	0.49%

(L) denotes long position

Notes:

- Mr. Yang Longfei is the holder of 162,222,222 Shares and 393,777,777 underlying shares of the Company under the convertible securities issued by the Company to him on 20 April 2018. The 254,055,888 Shares were held by China Lerthai, a company wholly and beneficially owned by Mr. Yang Longfei. By virtue of the SFO, Mr. Yang Longfei is deemed to be interested in the 254,055,888 shares of the Company held by China Lerthai.
- The shares represent the share options granted by the Company on 16 May 2016 under the share option scheme of the Company adopted on 22 August 2014.

Options

Particulars of the Company's share option scheme are set out in note 40(b) to the consolidated financial statements. The following table discloses details of the Company's share options in issue during the year:

Name of director	Date granted	Exercisable period	Exercise price per share HK\$	Outstanding at 1.1.2018 HK\$	Reclassified during the year [#]	Exercised during the year	Outstanding at 31.12.2018
Category 1: Director							
Yang Shao Xing Max	16.5.2016	16.5.2016–15.5.2026	4.11	3,387,659	(3,387,659)	-	-
Zhang Yan	16.5.2016	16.5.2016–15.5.2026	4.11	-	3,387,659	-	3,387,659
Total for director				3,387,659	-	-	3,387,659
Category 2: Employees							
	16.5.2016	16.5.2016–15.5.2026	4.11	30,488,931	- [#]	-	30,488,931
Total for employees				30,488,931	-	-	30,488,931
Total for all categories				33,876,590	-	-	33,876,590

[#] During the year, 3,387,659 share options of Ms. Zhang Yan was reclassified from Employee to Director due to her appointment as executive Director on 1 April 2018 and 3,387,659 share options of Mr. Yang Shao Xing Max was reclassified from Director to Employee due to his resignation as executive Director on 31 December 2018.

Save as disclosed above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, during the year, none of the Directors or chief executives of the Company, nor their spouses or children under the age of 18 years, were granted or had exercised any right to subscribe for any securities of the Company or its associated corporations.

Substantial Shareholders' Interests in the Securities of the Company

As at 31 December 2018, so far as are known to any Director or chief executives of the Company, the following parties (other than a Director or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Capacity/nature of interests	Number of ordinary share(s) held	Number of underlying share(s) held	Percentage of total number of shares in issue (approximately)
China Lerthai ¹	Beneficial owner	254,055,888 (L)	-	36.90%
Fantastic Stargaze Limited ²	Beneficial owner	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
Peace Winner Limited ³	Having a security interest in shares	254,055,888 (L)	-	74.99%
Huarong Overseas Investment Holdings Co., Limited ⁴	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
華融華僑資產管理股份有限公司 ⁵	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
華融致遠投資管理有限責任公司 ⁶	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
China Huarong Asset Management Co., Ltd. ⁷	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Security interest held by controlled corporation	254,055,888 (L)	-	74.99%
Ministry of Finance of the People's Republic of China ⁸	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
廣東錦峰集團有限公司 ⁹	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%

Name of Shareholders	Capacity/nature of interests	Number of ordinary share(s) held	Number of underlying share(s) held	Percentage of total number of shares in issue (approximately)
Hong Kong Kam Fung Group Company Limited ¹⁰	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
Sun Siu Ki ¹¹	Beneficial interest held by controlled corporation	-	30,000,000 (L)	8.86%
	Having a security interest in shares	254,055,888 (L)	-	74.99%
中國同祥控股集團有限公司 ¹²	Beneficial interest	11,305,555	35,333,333	6.78%

(L): Long position

Notes:

- China Lerthai is wholly-owned by Mr. Yang Longfei, the chairman, chief executive officer and executive Director of the Company.
- China Lerthai has provided a first priority share charge in respect of the 254,055,888 shares of the Company held by it in favour of Fantastic Stargaze Limited, a subsidiary of Huarong Overseas Investment Holdings Co., Limited, to secure the payment obligations under the convertible notes in the principal amount of HK\$450 million issued by the Company. Fantastic Stargaze Limited is the holder of the convertible notes of the Company in the principal amount of HK\$450 million convertible into 30,000,000 shares of the Company. Please refer to the announcement of the Company dated 22 January 2017 for further details.
- Peace Winner Limited is a wholly-owned subsidiary of Huarong Overseas Investment Holdings Co., Limited.
- Fantastic Stargaze Limited is a wholly-owned subsidiary of Huarong Overseas Investment Holdings Co., Limited.
- Huarong Overseas Investment Holdings Co., Limited is a wholly-owned subsidiary of 華融華僑資產管理股份有限公司.
- 華融致遠投資管理有限責任公司 is interested in 51% of equity interests in 華融華僑資產管理股份有限公司.
- 華融致遠投資管理有限責任公司 is a wholly-owned subsidiary of China Huarong Asset Management Co. Ltd.
- Ministry of Finance of the People's Republic of China is interested in 67.75% of equity interests in China Huarong Asset Management Co. Ltd.
- 廣東錦峰集團有限公司 is interested in 40% of equity interests in 華融華僑資產管理股份有限公司.
- 廣東錦峰集團有限公司 is a wholly-owned subsidiary of Hong Kong Kam Fung Group Company Limited.
- 香港錦峰集團有限公司 is wholly-owned by Mr. Sun Siu Ki.
- 中國同祥控股集團有限公司, a company owned as to 50% by 傅建永 and as to 50% by 傅一翔, is the holder of 11,305,555 Shares and 35,333,333 underlying shares of the Company under the convertible securities issued by the Company on 20 April 2018.

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.



Arrangements to Purchase Shares or Debentures

Save as the Share Option Scheme and Share Award Scheme as disclosed in note 40 to the consolidated financial statements, there were no arrangements to which the Company, its ultimate holding company, or any of its ultimate holding company's subsidiaries was a party to enable the Directors to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate during the year.

Directors Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in the paragraph headed "Connected Transactions & Continuing Connected Transactions" below, no transactions, arrangements or contracts of significance in connection with business of the Company, to which the Company, its parent company, subsidiaries or fellow subsidiaries were a party and in which any Director of the Company or his connected entity had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Related Party Transactions, Connected Transactions and Continuing Connected Transactions

Save as disclosed in note 44 to the consolidated financial statements and below, there were no significant related party transactions or connected transactions, or continuing connected transactions entered into by the Group for the year.

Connected Transactions & Continuing Connected Transactions

During the year, the Group entered into certain related party transactions which also constitute connected transactions under Chapter 14A of the Listing Rules. All the connected transactions and continuing connected transactions with disclosure requirements under the Listing Rules during the year were listed below and these transactions were also set out in note 44 to the consolidated financial statements. The directors of the Company confirm they have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Connected Transactions

1. Acquisition of equity interests in Lerthai International and Greatpro

On 20 March 2018, Lerthai Global Commercial Real Estate Fund SPC (“Lerthai Global SPC”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Yang Longfei (“Mr. Yang”), a controlling shareholder of the Company, to acquire the entire issued share capital of Lerthai International and Greatpro (collectively referred to as the “Target Companies”). The principal activities of the Target Companies are property development and investment and operation of shopping malls located in the PRC. The consideration was paid by Lerthai Global SPC to Mr. Yang by way of issue of convertible securities. Such acquisition had been subsequently approved by the independent shareholders of the Company at the extraordinary general meeting on 17 April 2018. The acquisition of the Target Companies was completed on 20 April 2018 and an aggregated principal amount of HK\$4,000,000,000 of the convertible securities have been issued to Mr. Yang.

2. Disposal of equity interest in LT International Investment and Sale Loan

On 23 October 2018, the Company entered into a sale and purchase agreement (the “Agreement”) with Mr. Yang to sell the entire issued share capital in LT International Investment Holdings Limited (“LT International Investment”), and the sale loan (“Sale Loan”) which represents all obligations, liabilities and debts owing or incurred by LT International Investment to the Company for a total consideration of HK\$247,369,000. LT International Investment, through its wholly-owned subsidiaries, LTG Platinum LLC and LTG South Hills LLC, was principally engaged in properties development and investment in the USA. Such disposal had been subsequently approved by the independent shareholders of the Company at the extraordinary general meeting on 30 January 2019. The disposal was completed on 4 February 2019 and an aggregated principal amount of HK\$239,569,000 of the promissory note have been issued by Mr. Yang to the Company.

Continuing Connected Transactions

1. Property Management Services Framework Agreement between the Oceancity Enterprise Management and LPSC (the services agreement is effective from 1 January 2019 until 31 December 2021)

Pursuant to the property management services framework agreement dated 9 November 2018 (supplemented on 31 December 2018), Lerthai Property Services Company Limited (“LPSC”) a company indirectly wholly-owned by Mr. Yang Longlei agreed to provide property management services at Tangshan Pelagic Mall to Tangshan Lerthai Oceancity Enterprise Management Company Limited (“Oceancity Enterprise Management”, which is an indirect wholly owned subsidiary of the Company) as set out in the property management services framework agreement with an annual cap of RMB28,895,125, RMB29,151,732 and RMB29,375,583 for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 respectively.

The aforesaid continuing connected transaction have been reviewed by the independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) 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; and (d) no services was provided and charged during the year ended 31 December 2018.

Further details are set out in the Company’s announcements dated 9 November 2018 and 31 December 2018.

2. Entrusted Operation Services Framework Agreement between Oceancity Enterprise Management and LPSC (The terms of the services agreement is 8 years commencing on the date of establishment of the Asset-backed Special Program)

Pursuant to the entrusted operation services framework agreement dated 9 November 2018, LPSC agreed to provide Entrusted Operation Services at Tangshan Pelagic Mall to Tangshan Lerthai Oceancity Enterprise Management as set out in the entrusted operation services framework agreement with an annual cap of RMB3,000,000.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) 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; and (d) no services was provided and charged during the year ended 31 December 2018.

Further details are set out in the Company’s announcement dated 9 November 2018.

Management Contracts

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

Permitted Indemnity Provision

Article 177 of the Company's Articles of Association provides that every Director, manager, secretary or other officer and every auditor of the Company shall be indemnified out of the asset of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director, manager, secretary or other officer or auditor shall be liable for any loss, damage or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto, to the extent permitted by the Companies Ordinance. The Company has also maintained Directors and officers' liability insurance during the Year.

Directors' Interests in Competing Businesses

As at 31 December 2018, none of the Directors was interested in any business, which competed or was likely to compete, either directly or indirectly, with the Group's businesses.

Retirement Benefit Schemes

Particulars of retirement benefits schemes of the Group are set out in note 40 to the consolidated financial statements.

Public Float

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

Auditor

The consolidated financial statements for the year ended 31 December 2018 were audited by ZHONGHUI ANDA CPA Limited. ZHONGHUI ANDA CPA Limited will retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of ZHONGHUI ANDA CPA Limited as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company. The consolidated financial statements for the two years ended 31 December 2016 and 2017 were audited by Deloitte Touche Tohmatsu.

The Company appointed ZHONGHUI ANDA CPA Limited as auditors of the Group for the year ended 31 December 2018 to fill the causal vacancy following the resignation of Deloitte Touche Tohmatsu.

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

On behalf of the Board

Yang Longfei

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 29 March 2019



TO THE MEMBERS OF LERTHAI GROUP LIMITED
(Formerly known as LT Commercial Real Estate Limited)
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Lerthai Group Limited (formerly known as LT Commercial Real Estate Limited) (the “Company”) and its subsidiaries (collectively referred to as “Group”) set out on pages 55 to 146, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAAs”) 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.

Material Uncertainty Related to Going Concern

We draw attention to note 2 to the consolidated financial statements which mentions that as at 31 December 2018, the Group had net current liabilities of approximately HK\$3,556,216,000. The cash and bank balances is decreased from approximately HK\$396,397,000 to HK\$184,107,000. In addition, the Group has capital commitments of approximately HK\$589,937,000 and other commitments of approximately HK\$791,938,000 as disclosed in note 43 to the consolidated financial statements.

The Group’s ability to continue as a going concern is dependent on the ongoing availability of finance supports to the Group, including the credit facility from its immediate holding company and ultimate controlling party and the continued support of the Group’s bankers. If these finance supports were not available, the Group may be unable to meet its financial obligations as and when they fall due. These conditions, indicate a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Investment properties

Refer to note 18 to the consolidated financial statements

The Group measured its investment properties at fair value with the changes in fair value recognised in the consolidated profit or loss. This fair value measurement is significant to our audit because the balance of investment properties of approximately HK\$20,658,520,000 as at 31 December 2018 and the fair value gain of approximately HK\$1,387,700,000 for the year then ended are material to the consolidated financial statements. In addition, the Group's fair value measurement involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

- Assessing the competence, independence and integrity of the external valuer engaged by client;
- Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;
- Checking key assumptions and input data in the valuation model to supporting evidence;
- Checking arithmetical accuracy of the valuation model; and
- Assessing the disclosure of the fair value measurement in the consolidated financial statements.

We consider that the Group's fair value measurement of the investment properties is supported by the available evidence.

Properties under development for sales/held for sales

Refer to note 22 to the consolidated financial statements

The Group tested the amount of properties under development for sales and held for sales for impairment. This impairment test is significant to our audit because the balance of properties under development for sales and held for sales of approximately HK\$2,655,213,000 and HK\$406,968,000 respectively as at 31 December 2018 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Obtaining and evaluating the Group's impairment assessment;
- Assessing the reasonableness of the anticipated costs to completion of properties under development for sales by comparing the previous budget costs to actual development costs incurred, and checking to construction contracts committed;
- Assessing the reasonableness of the estimated selling price used by the management with reference to the selling prices in the presale agreement and market prices achieved for comparable properties; and
- Assessing the net realisable values of properties under development for sales/held for sales.

We consider that the Group's impairment test for properties under development for sales and held for sales are supported by the available evidence.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report, but does not include 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 identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Directors for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at: <http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>.

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Ng Ka Lok

Audit Engagement Director

Practising Certificate Number P06084

Hong Kong, 29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (Restated)
Revenue	9	909,919	2,043,221
Cost of sales		(295,639)	(1,371,005)
Gross profit		614,280	672,216
Interest revenue		26,326	33,151
Other income and gains, net	11	73,551	42,353
Increase in fair value of investment properties		1,387,700	1,191,301
Selling and marketing expenses		(17,417)	(41,645)
Administrative expenses		(175,307)	(185,326)
Profit from operations		1,909,133	1,712,050
Finance costs	12	(791,973)	(716,062)
Profit before tax		1,117,160	995,988
Income tax expense	13	(407,483)	(410,891)
Profit for the year	14	709,677	585,097
Other comprehensive (expense) income after tax:			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value gain on financial liabilities designated at fair value through profit or loss attributable to change in credit risk		29,236	–
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(424,081)	431,021
Other comprehensive (expense) income for the year, net of tax		(394,845)	431,021
Total comprehensive income for the year attributable to owners of the Company		314,832	1,016,118
Earnings per share (HK dollars)	17		
– Basic		1.56	1.73
– Diluted		0.74	1.62

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (Restated)
Non-current assets			
Investment properties	18	20,658,520	20,872,122
Property, plant and equipment	19	20,270	46,556
Deposit	20	125,246	131,879
Interest receivables	21	41,561	25,763
Pledged bank deposits	21	1,736,463	2,015,770
Deferred tax assets	35	6,199	6,528
Other non-current assets		3,300	3,300
		22,591,559	23,101,918
Current assets			
Properties under development for sales	22	2,655,213	2,247,780
Properties held for sales	22	406,968	381,076
Equity investment at fair value through profit or loss		4,075	–
Trade and other receivables, deposits and prepayments	23	441,955	381,335
Amounts due from related parties	24	–	931,759
Restricted bank balances	21	11,135	289,766
Pledged bank deposits	21	6,872	7,075
Cash and bank balances	21	184,107	396,397
		3,710,325	4,635,188
Non-current assets held for sale	25	373,461	–
		4,083,786	4,635,188
Current liabilities			
Trade and other payables and accruals	26	3,255,464	3,899,152
Contract liabilities	27	1,922,370	1,825,999
Amounts due to related parties	28	–	507,579
Tax payable		27,000	26,842
Bank and other borrowings	29	1,915,517	1,545,157
Convertible bonds	30	380,363	77,167
Senior notes	31	100,226	93,297
Bonds	33	39,062	–
		7,640,002	7,975,193
Net current liabilities		(3,556,216)	(3,340,005)
Total assets less current liabilities		19,035,343	19,761,913

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (Restated)
Non-current liabilities			
Bank and other borrowings	29	9,892,573	10,157,899
Convertible bonds	30	–	374,706
Convertible securities	32	56,444	–
Bonds	33	–	38,871
Loans from related companies	34	–	263,884
Deferred tax liabilities	35	2,994,089	2,743,665
		12,943,106	13,579,025
Net assets			
		6,092,237	6,182,888
Capital and reserves			
Share capital	36	2,086,958	498,548
Reserves	38	2,854,808	5,684,340
Equity attributable to owners of the Company			
Perpetual capital instruments	39	1,150,471	–
Total equity			
		6,092,237	6,182,888

The consolidated financial statements on pages 55 to 146 were approved and authorised for issue by the board of directors on 29 March 2019 and signed on its behalf by:

Yang Longfei
Director

Zhang Yan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									Total HK\$'000
	Share capital HK\$'000	Share option reserve HK\$'000	Statutory reserve HK\$'000	Convertible securities equity reserve HK\$'000	Exchange reserve HK\$'000	Merger reserve HK\$'000	Revaluation reserve HK\$'000	(Accumulated losses)/ retained profits HK\$'000	Perpetual capital instruments HK\$'000	
At 1 January 2017, as previously reported	498,548	69,242	-	-	(85,677)	-	-	(261,157)	-	220,956
Merger accounting restatement (Note 4)	-	-	5,548	-	(723,063)	53,068	-	5,610,261	-	4,945,814
At 1 January 2017, as restated	498,548	69,242	5,548	-	(808,740)	53,068	-	5,349,104	-	5,166,770
Total comprehensive income for the year	-	-	-	-	431,021	-	-	585,097	-	1,016,118
At 31 December 2017, as restated	498,548	69,242	5,548	-	(377,719)	53,068	-	5,934,201	-	6,182,888
At 1 January 2018, as previously reported	498,548	69,242	-	-	(60,740)	-	-	(94,988)	-	412,062
Effect of changes in accounting policies	-	-	-	-	-	-	(14,996)	14,996	-	-
Merger accounting restatement (Note 4)	-	-	5,548	-	(316,979)	53,068	-	6,029,189	-	5,770,826
At 1 January 2018, as restated	498,548	69,242	5,548	-	(377,719)	53,068	(14,996)	5,949,197	-	6,182,888
Total comprehensive (expense) income for the year	-	-	-	-	(424,081)	-	29,236	709,677	-	314,832
Issue of convertible securities upon combination of entities under common control (Notes 4 and 32)	-	-	-	3,961,106	-	(4,049,057)	-	-	-	(87,951)
Combination of entities under common control (Note)	-	-	-	-	-	(53,068)	-	-	-	(53,068)
Amount written-off upon combination under common control (Note 4)	-	-	-	-	-	(1,447,621)	-	-	-	(1,447,621)
Perpetual capital instruments granted by related companies (Note 39)	-	-	-	-	-	-	-	-	1,150,471	1,150,471
Issue of shares upon conversion of convertible securities (Note 36)	1,588,410	-	-	(1,555,724)	-	-	-	-	-	32,686
At 31 December 2018	2,086,958	69,242	5,548	2,405,382	(801,800)	(5,496,678)	14,240	6,658,874	1,150,471	6,092,237

Note: It represents the effect of combination of Tangshan Oceancity Mall Property Services Company Limited ("Tangshan Property Management") by Greatpro Holdings Limited ("Greatpro") upon completion in early 2018. Details please refer to the Accountants' Report of Greatpro included in the Company's circular dated 28 March 2018.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

Notes	2018 HK\$'000	2017 HK\$'000 (Restated)
Cash flows from operating activities		
Profit before tax	1,117,160	995,988
Adjustments for:		
Interest revenue	(26,326)	(33,151)
Net exchange gain	(120,275)	(84,391)
Change in fair value of investment properties	(1,387,700)	(1,191,301)
Change in fair value of convertible bonds designated at fair value through profit or loss	35,943	3,011
Change in fair value of equity investment at fair value through profit or loss	(350)	–
Depreciation of property, plant and equipment	10,719	12,841
Finance costs	791,973	716,062
Loss (gain) on disposal of property, plant and equipment	12,652	(9,236)
Compensation to a former non-controlling shareholder of a subsidiary	–	15,916
Operating profit before changes in working capital	433,796	425,739
Change in properties under development for sales and properties held for sales	(302,709)	1,188,896
Change in trade and other receivables, deposits and prepayments	(69,785)	479,698
Change in trade and other payables and accruals	(55,547)	112,522
Change in contract liabilities/deposits received from sales of properties	188,177	(525,244)
Cash generated from operating activities	193,932	1,681,611
Income taxes paid	(137)	(48,078)
Net cash generated from operating activities	193,795	1,633,533
Cash flows from investing activities		
Interest received	9,082	2,866
Payment for investment properties and construction of properties held for sale	(115,933)	(1,090,476)
Additions to property, plant and equipment	(357)	(11,654)
Proceeds from disposal of property, plant and equipment	–	28,733
Proceeds from disposal of available-for-sale investment	–	346
Repayment from related parties	1,912,622	968,133
Advances to related parties	(1,920,654)	(1,207,196)
Purchase of equity investment at fair value through profit or loss	(3,725)	–
Net cash used in investing activities	(118,965)	(1,309,248)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (Restated)
Cash flows from financing activities	41		
New bank and other borrowings raised		1,710,417	7,910,928
Repayment of bank and other borrowings		(1,503,660)	(5,369,995)
Net proceeds on issuance of convertible bonds		–	439,032
Repayment of convertible bonds		(80,000)	(385,000)
Loan from a related company		535,854	3,058,360
Repayment on loan from a related company		(369,187)	(3,033,015)
Interest paid		(614,331)	(728,706)
Advances from related parties		–	503,937
Repayment to related parties		–	(251,639)
Repayment to a former shareholder of a subsidiary		(350,444)	–
Advances from tenants and other companies		16,020	38,048
Repayment to tenants and other companies		(33,663)	(63,737)
Release of restricted bank balances		267,749	35,599
Placement of restricted bank balances		(4,216)	(290,409)
Release of pledged bank deposits		181,307	677,734
Placement of pledged bank deposits		(4,137)	(2,337,899)
Repayment of senior notes		–	(192,000)
Payment to a related company's ex-shareholder		–	(57,736)
Payment related to asset-backed securities		–	(251,730)
Net cash used in financing activities		(248,291)	(298,228)
Net (decrease) increase in cash and cash equivalents		(173,461)	26,057
Effect of foreign exchange rate changes, net		(38,829)	20,308
Cash and cash equivalents at beginning of the year		396,397	350,032
Cash and cash equivalents at end of the year		184,107	396,397
Analysis of cash and cash equivalents			
Cash and bank balances		184,107	396,397

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. General Information

Lerthai Group Limited (formerly known as LT Commercial Real Estate Limited) (the “Company”) was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance. The address of its registered office and principal place of business is Room 3303, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group”). The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 47 to the consolidated financial statements.

In the opinion of the directors of the Company (the “Directors”), as at 31 December 2018, China Lerthai Commercial Real Estate Holdings Limited (“China Lerthai”), a company incorporated in the British Virgin Islands (the “BVI”), is an immediate holding company; and Mr. Yang Longfei (“Mr. Yang”), is the ultimate controlling party of the Company.

2. Going Concern Basis

As at 31 December 2018, the Group had net current liabilities of approximately HK\$3.56 billion. The cash and bank balances is decreased from approximately HK\$396.40 million to HK\$184.11 million. In addition, the Group has capital commitments of approximately HK\$589.94 million and other commitments of approximately HK\$791.94 million as at 31 December 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing availability of finance supports to the Group, including the credit facilities from its immediate holding company, ultimate controlling party and the continued support of the Group’s bankers. As at the date of this report, the ultimate controlling party of the Group has committed to provide financial support of not less than approximately HK\$1.00 billion. Meanwhile, the Group has obtained the approval of issuance of the asset-backed securities on the Shenzhen Stock Exchange. The Group has also been negotiating with its bankers for the renewal of the banking facilities of the amount of approximately HK\$1.13 billion. The Directors are confident that the banking facilities will be renewed and increased. The Directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

For the year ended 31 December 2018

3. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years except as stated below.

(a) HKFRS 9 (2014) “Financial Instruments”

Convertible bonds issued by the Group designated at fair value through profit or loss (“FVTPL”) qualified for designation as measured at FVTPL under HKFRS 9. However the amount of change in the fair value of these financial liabilities that is attributable to changes in the credit risk of these liabilities will be recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. Related fair value losses attributable to changes in the credit risk of those liabilities of HK\$14,996,000 were transferred from the retained profits to revaluation reserve on 1 January 2018.

HKFRS 9 (2014) has been applied and resulted in changes in the consolidated amounts reported in the consolidated financial statements as follows:

	HK\$’000
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At 1 January 2018:	
Increase in retained profits	14,996
Decrease in revaluation reserve	(14,996)
	<hr/>

(b) HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the consolidated financial statements as follows:

	HK\$’000
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At 31 December 2017:	
Decrease in deposits received from sales of properties	(1,825,999)
Increase in contract liabilities	1,825,999
	<hr/>

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. Merger Accounting Restatement

Merger accounting for business combination involving business under common control

On 20 March 2018, Lerthai Global Commercial Real Estate Fund SPC (“Lerthai Global SPC”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Yang, a controlling shareholder of the Company, to acquire the entire issued share capital of Lerthai International Holdings Limited (“Lerthai International”) and Greatpro (collectively referred to as the “Target Companies”). The principal activities of the Target Companies are property development and investment and operation of shopping malls located in the People’s Republic of China (the “PRC”). The consideration will be paid by Lerthai Global SPC to Mr. Yang by way of issue of convertible securities.

The acquisition of the Target Companies was completed on 20 April 2018 by passing an ordinary resolution at an extraordinary general meeting held on 17 April 2018. An aggregated principal amount of HK\$4,000,000,000 of the convertible securities have been issued to Mr. Yang.

Since Lerthai Global SPC and the Target Companies are under common control of Mr. Yang, the acquisition has been accounted for as business combination under common control in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the HKICPA.

Under merger accounting, the results of the Target Companies have been combined from the date when they first came under the control of the Company. The assets and liabilities of the Target Companies have been reflected at their existing carrying values at the date of combination. No amount has been recognised in respect of goodwill or excess of the acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, which, instead, has been recorded in merger reserve in equity.

Accordingly, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2017 have been restated to include the assets and liabilities and the operating results of the Target Companies as if this acquisition had been completed since the date the Target Companies came under the control of the Company. The consolidated statement of financial position as at 1 January 2017 and 31 December 2017 have been restated to include the carrying amounts of the assets and liabilities of the Target Companies had been in existence as at 1 January 2017 and 31 December 2017 as if the Target Companies were combined from the date when they first came under the control of the Company.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group’s accounting policies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. Merger Accounting Restatement (continued)

The effect of restatement described above on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 by line items is as follows:

	Year ended 31 December 2017 HK\$'000 (Original)	Business combination of entities under common control HK\$'000	Year ended 31 December 2017 HK\$'000 (Restated)
Revenue	1,414,321	628,900	2,043,221
Cost of sales	(1,206,945)	(164,060)	(1,371,005)
Gross profit	207,376	464,840	672,216
Interest revenue	1,128	32,023	33,151
Other income and gains, net	(4,328)	46,681	42,353
Increase in fair value of investment properties	477,683	713,618	1,191,301
Selling and marketing expenses	(40,059)	(1,586)	(41,645)
Administrative expenses	(140,690)	(44,636)	(185,326)
Profit from operations	501,110	1,210,940	1,712,050
Finance costs	(150,071)	(565,991)	(716,062)
Profit before tax	351,039	644,949	995,988
Income tax expense	(184,870)	(226,021)	(410,891)
Profit for the year	166,169	418,928	585,097
Other comprehensive income after tax:			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations	24,937	406,084	431,021
Other comprehensive income for the year, net of tax	24,937	406,084	431,021
Total comprehensive income for the year attributable to owners of the Company	191,106	825,012	1,016,118

4. Merger Accounting Restatement (continued)

The effect of restatement on the consolidated statement of financial position as at 1 January 2017 is as follows:

	1 January 2017 HK\$'000 (Original)	Business combination of entities under common control HK\$'000	1 January 2017 HK\$'000 (Restated)
Non-current assets			
Investment properties	2,968,666	13,889,514	16,858,180
Property, plant and equipment	8,621	55,419	64,040
Pledged bank deposits	17,323	229,829	247,152
Deferred tax assets	22,931	–	22,931
Available-for-sale investment	–	333	333
Other non-current assets	3,300	–	3,300
	3,020,841	14,175,095	17,195,936
Current assets			
Properties under development for sales	3,413,157	–	3,413,157
Properties held for sales	–	189,168	189,168
Trade and other receivables, deposits and prepayments	650,874	60,387	711,261
Amounts due from related parties	–	806,932	806,932
Restricted bank balances	32,093	46	32,139
Pledged bank deposits	12,944	17,685	30,629
Cash and bank balances	51,818	298,214	350,032
	4,160,886	1,372,432	5,533,318

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. Merger Accounting Restatement (continued)

	1 January 2017 HK\$'000 (Original)	Business combination of entities under common control HK\$'000	1 January 2017 HK\$'000 (Restated)
Current liabilities			
Trade and other payables and accruals	1,634,737	1,781,725	3,416,462
Deposits received from sales of properties	1,867,809	301,993	2,169,802
Amounts due to related parties	2,788	220,232	223,020
Tax payable	4,943	617	5,560
Bank and other borrowings	384,168	946,844	1,331,012
Convertible bonds	444,518	–	444,518
Senior notes	180,983	–	180,983
	4,519,946	3,251,411	7,771,357
Net current liabilities	(359,060)	(1,878,979)	(2,238,039)
Total assets less current liabilities	2,661,781	12,296,116	14,957,897
Non-current liabilities			
Rental deposit received	677	–	677
Bank and other borrowings	2,037,182	5,190,045	7,227,227
Bonds	38,660	–	38,660
Senior notes	90,309	–	90,309
Loans from related companies	212,881	–	212,881
Deferred tax liabilities	61,116	2,160,257	2,221,373
	2,440,825	7,350,302	9,791,127
Net assets	220,956	4,945,814	5,166,770
Capital and reserves			
Share capital	498,548	–	498,548
Reserves	(277,592)	4,945,814	4,668,222
Total equity	220,956	4,945,814	5,166,770

4. Merger Accounting Restatement (continued)

The effect of restatement to the Group's equity on 1 January 2017 is summarised below:

	1 January 2017 HK\$'000 (Original)	Business combination of entities under common control HK\$'000	1 January 2017 HK\$'000 (Restated)
Share capital	498,548	–	498,548
Share option reserve	69,242	–	69,242
Statutory reserve	–	5,548	5,548
Exchange reserve	(85,677)	(723,063)	(808,740)
Merger reserve	–	53,068	53,068
(Accumulated losses) retained profits	(261,157)	5,610,261	5,349,104
	220,956	4,945,814	5,166,770

The effect of restatements on the consolidated statement of financial position as at 31 December 2017 is as follows:

	31 December 2017 HK\$'000 (Original)	Business combination of entities under common control HK\$'000	31 December 2017 HK\$'000 (Restated)
Non-current assets			
Investment properties	5,146,150	15,725,972	20,872,122
Property, plant and equipment	8,337	38,219	46,556
Deposit	–	131,879	131,879
Interest receivables	–	25,763	25,763
Pledged bank deposits	24,373	1,991,397	2,015,770
Deferred tax assets	6,528	–	6,528
Other non-current assets	3,300	–	3,300
	5,188,688	17,913,230	23,101,918

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. Merger Accounting Restatement (continued)

	31 December 2017 HK\$'000 (Original)	Business combination of entities under common control HK\$'000	31 December 2017 HK\$'000 (Restated)
Current assets			
Properties under development for sales	2,247,780	–	2,247,780
Properties held for sales	202,608	178,468	381,076
Trade and other receivables, deposits and prepayments	240,791	140,544	381,335
Amounts due from related parties	–	931,759	931,759
Restricted bank balances	283,384	6,382	289,766
Pledged bank deposits	–	7,075	7,075
Cash and bank balances	106,979	289,418	396,397
	3,081,542	1,553,646	4,635,188
Current liabilities			
Trade and other payables and accruals	2,062,180	1,836,972	3,899,152
Deposits received from sales of properties	1,540,414	285,585	1,825,999
Amounts due to related parties	18,076	489,503	507,579
Tax payable	9,356	17,486	26,842
Bank and other borrowings	837,806	707,351	1,545,157
Convertible bonds	77,167	–	77,167
Senior notes	93,297	–	93,297
	4,638,296	3,336,897	7,975,193
Net current liabilities	(1,556,754)	(1,783,251)	(3,340,005)
Total assets less current liabilities	3,631,934	16,129,979	19,761,913

For the year ended 31 December 2018

4. Merger Accounting Restatement (continued)

	31 December 2017 HK\$'000 (Original)	Business combination of entities under common control HK\$'000	31 December 2017 HK\$'000 (Restated)
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Non-current liabilities			
Bank and other borrowings	2,344,529	7,813,370	10,157,899
Convertible bonds	374,706	–	374,706
Bonds	38,871	–	38,871
Loans from related companies	263,884	–	263,884
Deferred tax liabilities	197,882	2,545,783	2,743,665
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	3,219,872	10,359,153	13,579,025
	<hr/>		
Net assets	412,062	5,770,826	6,182,888
	<hr/>		
Capital and reserves			
Share capital	498,548	–	498,548
Reserves	(86,486)	5,770,826	5,684,340
	<hr/>		
Total equity	412,062	5,770,826	6,182,888
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Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. Merger Accounting Restatement (continued)

The effect of restatement to the Group's equity on 31 December 2017 is summarised below:

	31 December 2017 HK\$'000 (Original)	Business combination of entities under common control HK\$'000	31 December 2017 HK\$'000 (Restated)
Share capital	498,548	–	498,548
Share option reserve	69,242	–	69,242
Statutory reserve	–	5,548	5,548
Exchange reserve	(60,740)	(316,979)	(377,719)
Merger reserve	–	53,068	53,068
(Accumulated losses) retained profits	(94,988)	6,029,189	5,934,201
	412,062	5,770,826	6,182,888

Note: The amounts above are before the adjustments from the application of HKFRS 9 and 15.

The effects of adoption of merger accounting on the consolidated statement of cash flows for the year ended 31 December 2017 are as follows:

	Year ended 31 December 2017		
	Original HK\$'000	Adjustments on merger accounting HK\$'000	Restated HK\$'000
Net cash generated from operating activities	912,283	721,250	1,633,533
Net cash used in investing activities	(1,053,860)	(255,388)	(1,309,248)
Net cash generated from (used in) financing activities	197,409	(495,637)	(298,228)
Net increase (decrease) in cash and cash equivalents	55,832	(29,775)	26,057
Cash and cash equivalents at 1 January 2017	51,818	298,214	350,032
Effect of foreign exchange rate changes, net	(671)	20,979	20,308
Cash and cash equivalents at 31 December 2017	106,979	289,418	396,397

4. Merger Accounting Restatement (continued)

The effect of the restatement on the Group's basic and diluted earnings per share for the year ended 31 December 2017 is as follow:

	HK dollars
Impact on basic earnings per share	
Originally stated	0.49
Adjustments arising from business combination under common control	1.24
Restated	1.73
Impact on diluted earnings per share	
Originally stated	0.49
Adjustments arising from business combination under common control	1.13
Restated	1.62

5. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by investment properties and certain financial instruments which are carried at their fair values/fair values less costs to sell.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 6 to the consolidated financial statements.

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

For the year ended 31 December 2018

5. Significant Accounting Policies (continued)

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the Company's presentation currency. The functional currency of the Company is Renminbi ("RMB"). The Directors consider that choosing HK\$ as the presentation currency best suits the needs of the shareholders and investors.

(b) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

5. Significant Accounting Policies (continued)

Foreign currency translation (continued)

(c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	20 – 35 years
Furniture and fixtures and computer equipment	3 – 10 years
Leasehold improvements	Over the shorter of 8 years or remaining terms of the lease
Motor vehicles	4 – 6 years
Machinery	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

For the year ended 31 December 2018

5. Significant Accounting Policies (continued)

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property including property that is being constructed or developed for future use as investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an investment property becomes owner-occupied or a property held for sale, it is reclassified as property, plant and equipment or properties held for sale as appropriate, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If a property held for sale becomes an investment property, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in profit or loss.

Property that is being constructed or developed for future use as investment property is stated at cost less impairment losses until construction or development is complete, at which time it is stated at fair value. The difference between the fair value and the previous carrying amount is recognised in profit or loss.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Securitisation

The Group securitises certain investment properties, which generally results in the sale of these assets to special purpose entities, which, in turn issue securities to investors. Interests in the securitised assets may be retained in the form of senior or junior tranches, or other residual interests (retained interests). Retained interests are stated at fair value on the consolidated statement of financial position of the Group.

When applying the policies on securitised assets, the Group has considered both the degree of transfer of risks and rewards on the transferred assets and the degree of control exercised by the Group over the transferred assets:

- when the Group transfers substantially all the risks and rewards of ownership of the assets, the Group shall derecognise the assets;
- when the Group retains substantially all the risks and rewards of ownership of the underlying assets, the Group shall continue to recognise the relevant assets; and
- when the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the underlying assets. If the Group has not retained control, it shall derecognise the assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the assets to the extent of its continuing involvement in the assets.

5. Significant Accounting Policies (continued)

Leases

(a) *The Group as lessee – Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(b) *The Group as lessor – Operating leases*

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Properties for sale under development

Properties for sale under development are stated at the lower of cost and net realisable value. Costs include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition. On completion, the properties are reclassified to properties held for sale at the then carrying amount.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Costs of properties include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

For the year ended 31 December 2018

5. Significant Accounting Policies (continued)

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at FVTPL. Transaction costs directly attributable to the acquisition of investments at FVTPL are recognised immediately in profit or loss.

Financial assets of the Group are classified as under the following categories:

- Financial assets at amortised cost; and
- Equity investments at FVTPL.

(a) *Financial assets at amortised cost*

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(b) *Equity investments at FVTPL*

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at FVTPL are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

5. Significant Accounting Policies (continued)

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument (“lifetime expected credit losses”) for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

For the year ended 31 December 2018

5. Significant Accounting Policies (continued)

Convertible securities

Convertible securities which entitle the holder to convert the securities into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The fair value of any derivative features embedded in the compound instruments is included in the liability component. The difference between the proceeds of issue of the convertible loans and the fair values assigned to the liability component, representing the embedded option for the holder to convert the securities into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative components are measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and equity components of the convertible securities based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. An embedded floor on the interest rate on a debt contract is closely related to the host contract, provided that the floor is at or below the market rate of interest when the contract is issued, and the floor is not leveraged in relation to the host contract.

The Group has designated the convertible bonds with conversion options and embedded floor on the interest rate as financial liabilities at FVTPL. At the date of initial recognition and at the end of subsequent reporting periods, the convertible bonds are measured at fair value with changes in fair value recognised directly in profit or loss in the period in which they arise.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

5. Significant Accounting Policies (continued)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other revenue

Interest income is recognised using the effective interest method.

For the year ended 31 December 2018

5. Significant Accounting Policies (continued)

Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) *Pension obligations*

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) for all qualifying employees in Hong Kong under the rules and regulations of the Mandatory Provident Fund Schemes Authority. The assets of the MPF Scheme are held separately from those of the Group, and are in funds under the control of trustees. Contributions are made based on a percentage of the participating employees’ relevant income from the Group and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. When an employee leaves the MPF Scheme, the mandatory contributions are fully vested with the employee.

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions.

Employees of the subsidiaries in the United State of America (the “USA”) are members of pension schemes operated by the respective governments and private sectors. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes.

(c) *Termination benefits*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

5. Significant Accounting Policies (continued)

Share-based payment

The Group issues equity-settled share-based payments to certain director and employees.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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, until such time as 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 eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

For the year ended 31 December 2018

5. Significant Accounting Policies (continued)

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

5. Significant Accounting Policies (continued)

PRC land appreciation tax (“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 land costs, borrowing costs, business taxes and all property development expenditures. LAT is recognised as an income tax expense. LAT paid is a deductible expense for PRC enterprise income tax purposes.

Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person’s family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

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5. Significant Accounting Policies (continued)

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets except investment properties, deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

5. Significant Accounting Policies (continued)

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

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

For the year ended 31 December 2018

6. Critical Judgements and Key Estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the immediate holding company, ultimate controlling party and the Group's bankers at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to the consolidated financial statements.

(b) Classification of properties as investment properties or properties held for sales

The Group develops properties held for sales and properties held to earn rentals and/or for capital appreciation. Judgement is made by the management in determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention of holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development for sales included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as investment properties under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of construction of the properties, the properties under development for sales are transferred to completed properties held for sales and are stated at lower of cost and net realisable value, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

(c) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the Directors have rebutted the presumption that investment properties measured using the fair value model are recovered through sale.

6. Critical Judgements and Key Estimates (continued)

Key sources of estimation uncertainty

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

(a) *Fair values of investment properties*

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The Directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(b) *Allowance for properties under development for sales*

The management estimates the net realisable value for properties under development for sales. Significant judgement is required by the management in determining the prices at which the properties will be sold as the property prices in the PRC may be, from time-to-time, affected by macroeconomic control measures executed by the PRC government.

(c) *LAT*

LAT in the PRC is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs and all other property development expenditures.

The Group's subsidiaries engaging in the properties development in the PRC are subject to LAT. However, the Group has not finalised its LAT calculation and tax payments with local tax bureau. Accordingly, significant judgements are required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognised these liabilities based on the management's best estimates according to the understanding of the tax rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated statement of profit or loss and the provision of LAT in the period in which such determination is made.

For the year ended 31 December 2018

7. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2018, if the HK\$ had weakened 1% against the Euro with all other variables held constant, consolidated profit after tax for the year would have been HK\$13,413,000 (2017: HK\$15,536,000) lower, arising mainly as a result of the foreign exchange loss on borrowings denominated in Euro. If the HK\$ had strengthened 1% against the Euro with all other variables held constant, consolidated profit after tax for the year would have been HK\$13,413,000 (2017: HK\$15,536,000) higher, arising mainly as a result of the foreign exchange gain on borrowings denominated in Euro.

As at 31 December 2018, if the HK\$ had weakened 1% against the United States dollar ("US\$") with all other variables held constant, consolidated profit after tax for the year would have been HK\$4,113,000 (2017: HK\$847,000) lower, arising mainly as a result of the foreign exchange loss on borrowings denominated in US\$. If the HK\$ had strengthened 1% against the US\$ with all other variables held constant, consolidated profit after tax for the year would have been HK\$4,113,000 (2017: HK\$847,000) higher, arising mainly as a result of the foreign exchange gain on borrowings denominated in US\$.

(b) Credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties' failure to discharge their obligations in relation to each class of recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure the adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

7. Financial Risk Management (continued)

(b) Credit risk (continued)

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

- internal credit rating;
- external credit rating (if available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

All of these loans are considered to have low risk and under the "Performing" category because they have a low risk of default and have strong ability to meet their obligations.

The Group also had concentration risk on bank deposits. The Directors consider the credit risk for bank deposits is limited because the counterparties are financial institutions with high credit ratings.

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For the year ended 31 December 2018

7. Financial Risk Management (continued)

(c) Liquidity risk

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

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 year HK\$'000
At 31 December 2018				
Bank and other borrowings	2,311,446	3,380,050	5,445,912	2,288,872
Trade and other payables and accruals	3,193,398	–	–	–
Convertible bonds	401,193	–	–	–
Senior notes	107,207	–	–	–
Convertible securities	–	–	–	56,444
Bonds	52,436	–	–	–
Financial guarantee contracts issued				
– maximum amount guaranteed	1,560,682	–	–	–
At 31 December 2017				
Bank and other borrowings	2,204,409	2,321,641	7,889,600	2,019,848
Trade and other payables and accruals	3,779,443	–	–	–
Amounts due to related parties	507,579	–	–	–
Loans from related companies	31,666	31,666	295,550	–
Convertible bonds	117,444	145,667	251,389	–
Senior notes	99,284	–	–	–
Bonds	3,200	3,200	49,236	–
Financial guarantee contracts issued				
– maximum amount guaranteed	3,067,231	–	–	–

7. Financial Risk Management (continued)

(d) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-bearing borrowings bear interests are at fixed interest rates and therefore are subject to fair value interest rate risks.

As at 31 December 2018, if floating interest rates at that date had been 50 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been HK\$34,899,000 (2017: HK\$32,637,000) higher/lower, arising mainly as a result of lower/higher interest expense on bank and other borrowings and the interest capitalised to the Group's properties under development for sale or investment properties under development would decrease/increase by HK\$6,860,000 (2017: HK\$7,223,000).

(e) Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000 (Restated)
Financial assets:		
Equity investment at FVTPL:		
Mandatorily measured	4,075	–
Financial assets at amortised cost (including cash and cash equivalents)	2,099,659	3,895,423
Financial liabilities:		
Financial liabilities at FVTPL:		
Designated as such upon initial recognition	380,363	451,873
Financial liabilities at amortised cost	15,197,220	16,386,130

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

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8. Fair Value Measurements

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 following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy:

At 31 December 2018

Description	Fair value measurements using:			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurements:				
Assets				
Equity investments at FVTPL				
Listed securities in India	4,075	–	–	4,075
	4,075	–	–	4,075
Investment properties				
Commercial – the PRC	–	–	20,435,251	20,435,251
Commercial – the USA	–	–	223,269	223,269
	–	–	20,658,520	20,658,520
Liabilities				
Convertible bonds	–	–	(380,363)	(380,363)
Total recurring fair value measurements	4,075	–	20,278,157	20,282,232
Non-recurring fair value measurements:				
Non-current assets held for sale				
Investment properties				
Commercial – PRC	–	–	373,461	373,461
Total non-recurring fair value measurements	–	–	373,461	373,461

8. Fair Value Measurements (continued)**(a) Disclosures of level in fair value hierarchy: (continued)**

At 31 December 2017

Description	Fair value measurements using:			Total HK\$'000 (Restated)
	Level 1	Level 2	Level 3	
	HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000 (Restated)	
Recurring fair value measurements:				
Assets				
Investment properties				
Commercial – the PRC	–	–	20,642,782	20,642,782
Commercial – the USA	–	–	229,340	229,340
	–	–	20,872,122	20,872,122
Liabilities				
Convertible bonds	–	–	(451,873)	(451,873)
Total recurring fair value measurements	–	–	20,420,249	20,420,249

(b) Reconciliation of assets and liabilities measured at fair value based on level 3:

Description	Investment properties HK\$'000	Convertible bonds HK\$'000	Total HK\$'000
At 1 January 2018	20,872,122	(451,873)	20,420,249
Total gains or losses recognised in profit or loss ^(#)	1,387,700	(78,799)	1,308,901
in other comprehensive income	–	29,236	29,236
Additions	115,933	–	115,933
Repayment	–	121,073	121,073
Disposals	(16,075)	–	(16,075)
Transfer to properties held for sale	(237,681)	–	(237,681)
Effect of foreign exchange difference	(1,090,018)	–	(1,090,018)
At 31 December 2018	21,031,981	(380,363)	20,651,618
^(#) Include gains or losses for assets/liabilities held at end of reporting period	1,377,363	(37,726)	1,339,637

For the year ended 31 December 2018

8. Fair Value Measurements (continued)**(b) Reconciliation of assets and liabilities measured at fair value based on level 3: (continued)**

Description	Investment properties HK\$'000 (Restated)	Convertible bonds HK\$'000 (Restated)	Total HK\$'000 (Restated)
At 1 January 2017	16,858,180	(444,518)	16,413,662
Total gains or losses recognised in profit or loss ^(#)	1,191,301	(53,427)	1,137,874
Additions	1,402,745	–	1,402,745
Issue	–	(439,032)	(439,032)
Repayment	–	485,104	485,104
Effect of foreign exchange difference	1,419,896	–	1,419,896
At 31 December 2017	20,872,122	(451,873)	20,420,249
^(#) Include gains or losses for assets/liabilities held at end of reporting period	1,191,301	(12,841)	1,178,460

The total gains or losses recognised in other comprehensive income are presented in investment valuation gain in the consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those for assets/liabilities held at end of reporting period are presented in other income in the consolidated statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The chief financial officer reports directly to the board of directors (the "Board") for these fair value measurements. Discussions of valuation processes and results are held between the chief financial officer and the Board at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

8. Fair Value Measurements (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (continued)

Level 3 fair value measurements

As at 31 December 2018

Description	Valuation technique	Unobservable inputs	Range/weighted average price	Effect on fair value for increase of inputs
Completed investment properties located in the USA – retail	Income capitalisation approach	Capitalisation rate	6.67%	Decrease
		Market rent	Market rent: US\$15.6 – US\$22.2 per square feet per year	Increase
Investment properties measured at fair value located at Lerthai City in Tangshan of the PRC	Income capitalisation approach	Market yield	2.75% – 5.5%	Decrease
		Market rent per month	RMB39.6 – RMB141 per square metre	Increase
Investment properties under construction measured at fair value located in Handan of the PRC	Residual method	Market yield	6.0%	Decrease
		Market rent per month	RMB18 – RMB192 per square metre	Increase
		Expected developer's profit	5.0% – 15.0%	Decrease
		Construction costs to complete	RMB229,000,000	Decrease
Investment properties measured at fair value located in Shijiazhuang of the PRC	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	Retail portion: RMB17,774 per square metre; Office and residential portion: RMB22,466 per square metre	Increase
Commercial property units located at Oceancity in Tangshan of the PRC – completed properties	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	RMB25,310 per square metre	Increase
Commercial property units located in Tangshan of the PRC – for future development	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	RMB1,870 per square metre	Increase
Convertible bonds	Binomial option pricing model	Discount rate	11.09% – 11.27%	Decrease

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8. Fair Value Measurements (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (continued)

Level 3 fair value measurements (continued)

As at 31 December 2017

Description	Valuation technique	Unobservable inputs	Range/weighted average price	Effect on fair value for increase of inputs
Completed investment properties located in the USA – retail	Income capitalisation approach	Capitalisation rate	6.5%	Decrease
		Market rent	Market rent: US\$18 – US\$45 per square feet per year	Increase
Investment properties measured at fair value located at Lerthai City in Tangshan of the PRC	Income capitalisation approach	Capitalisation rate	5.0% – 6.5%	Decrease
		Market rent per month	RMB27 – RMB208 per square metre	Increase
Investment properties under construction measured at fair value located in Handan of the PRC	Residual method	Capitalisation rate	5.0% – 7.0%	Decrease
		Market rent per month	RMB40 – RMB230 per square metre	Increase
		Expected developer's profit	5.0% – 15.0%	Decrease
		Construction costs to complete	RMB276,000,000	Decrease
Investment properties measured at fair value located in Shijiazhuang of the PRC	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	Retail portion: RMB17,500 per square metre; Office and residential portion: RMB22,472 per square metre	Increase
Commercial property units located at Oceancity in Tangshan of the PRC – completed properties	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	RMB10,100 – RMB33,800 per square metre	Increase
Commercial property units located in Tangshan of the PRC – for future development	Market approach	Market unit rate, mainly taking into account the time, location, quality, floor level and size, between the comparables	RMB898 – RMB1,798 per square metre	Increase
Convertible bonds	Binomial option pricing model	Discount rate	8.65% – 8.97%	Decrease

9. Revenue

Revenue represents the income from property development, property leasing and provision of comprehensive property management services, net of business tax and other sales related taxes and after deduction of any trade discounts.

Revenue represents the aggregate amounts received and receivable, analysed as follows:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Sales of properties	174,131	1,422,437
Revenue from property management services	335,267	128,249
Revenue from contracts with customers	509,398	1,550,686
Rental income	400,521	492,535
Total revenue	909,919	2,043,221
Disaggregation of revenue from contracts with customers:		
Timing of revenue recognition		
At a point in time	174,131	1,422,437
Over time	335,267	128,249
Total	509,398	1,550,686

Sales of properties

The Group develops and sells residential and commercial properties to the customers. Sales of a property is recognised when control of the property has transferred, being when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

The Group did not grant any credit terms to its customers. For all customers, deposits are required. Deposits received are recognised as a contract liability.

For the year ended 31 December 2018

9. Revenue (continued)

Revenue from property management services

The Group provides property management services to the customers. Property management services income is recognised when the property management services is rendered and there is no unfulfilled obligation that could affect the customer's acceptance of the services.

The Group did not grant any credit terms to its customers.

Rental income

The Group leases out investment properties to the customers. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group did not grant any credit terms to its customers.

10. Segment Information

Information reported to the Board, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance is based on real estate business in different geographical locations. This is also the basis upon which the Group is organised and managed. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segment based on information reported to the CODM are as follows: (i) Real estate business in Tangshan, the PRC; (ii) Real estate business in Handan, the PRC; (iii) Real estate business in Shijiazhuang, the PRC; (iv) Real estate business in West Covina, the USA; and (v) Real estate business in Anaheim, the USA.

10. Segment Information (continued)**Segment revenue and results**

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Segment revenue		Segment profit (loss)	
	2018 HK\$'000	2017 HK\$'000 (Restated)	2018 HK\$'000	2017 HK\$'000 (Restated)
Real estate business in				
Tangshan, the PRC	428,749	1,619,943	742,359	566,527
Handan, the PRC	–	–	366,678	223,194
Shijiazhuang, the PRC	465,472	409,876	1,072,082	932,222
West Covina, the USA	15,698	13,402	(15,994)	52,876
Anaheim, the USA	–	–	(1,648)	(6)
	909,919	2,043,221	2,163,477	1,774,813
Unallocated items				
Other income and gains, net			73,551	42,353
Finance costs			(791,973)	(716,062)
Unallocated corporate expenses, net			(327,895)	(105,116)
Profit before tax			1,117,160	995,988

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10. Segment Information (continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Segment assets		
Real estate business in		
Tangshan, the PRC	7,676,839	7,280,656
Handan, the PRC	4,755,032	3,662,091
Shijiazhuang, the PRC	11,623,132	12,652,756
West Covina, the USA	221,742	233,881
Anaheim, the USA	243,707	237,342
Total segment assets	24,520,452	24,066,726
Pledged bank deposits	1,743,335	2,022,845
Deferred tax assets	6,199	6,528
Amounts due from related parties	–	931,759
Restricted bank balances	11,135	289,766
Cash and bank balances	184,107	396,397
Unallocated corporate assets	210,117	23,085
Consolidated total assets	26,675,345	27,737,106
Segment liabilities		
Real estate business in		
Tangshan, the PRC	2,265,143	1,705,200
Handan, the PRC	903,362	1,968,126
Shijiazhuang, the PRC	1,351,324	1,914,029
West Covina, the USA	2,496	103,035
Anaheim, the USA	588	225
Total segment liabilities	4,522,913	5,690,615
Amounts due to related parties	–	507,579
Tax payable	27,000	26,842
Bank and other borrowings	11,808,090	11,703,056
Convertible bonds	380,363	451,873
Senior notes	100,226	93,297
Convertible securities	56,444	–
Bonds	39,062	38,871
Loans from related companies	–	263,884
Deferred tax liabilities	2,994,089	2,743,665
Unallocated corporate liabilities	654,921	34,536
Consolidated total liabilities	20,583,108	21,554,218

10. Segment Information (continued)

Segment assets and liabilities (continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than pledged bank deposits, deferred tax assets, amounts due from related parties, restricted bank balances and cash and bank balances; and
- all liabilities are allocated to operating segments other than amounts due to related parties, tax payable, bank and other borrowings, convertible bonds, senior notes, convertible securities, bonds, loans from related companies and deferred tax liabilities.

Other segment information

2018

	Real estate business in						Total HK\$'000
	Tangshan, the PRC HK\$'000	Handan, the PRC HK\$'000	Shijiazhuang, the PRC HK\$'000	West Covina, the USA HK\$'000	Anaheim, the USA HK\$'000	Unallocated HK\$'000	
Amounts include in the measure of segment profit or loss or segment assets:							
Interest revenue	1,273	3,814	21,232	–	–	7	26,326
Depreciation	(5,319)	(546)	(1,956)	–	–	(2,898)	(10,719)
Increase (decrease) in fair value of investment properties	1,193,663	106,621	112,904	(25,488)	–	–	1,387,700
Additions to property, plant and equipment	201	7	–	–	–	149	357
Additions to investment properties	20,090	68,091	8,911	18,841	–	–	115,933

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10. Segment Information (continued)

Other segment information (continued)

2017 (Restated)

	Real estate business in						Total HK\$'000
	Tangshan, the PRC HK\$'000	Handan, the PRC HK\$'000	Shijiazhuang, the PRC HK\$'000	West Covina, the USA HK\$'000	Anaheim, the USA HK\$'000	Unallocated HK\$'000	
Amounts include in the measure of segment profit or loss or segment assets:							
Interest revenue	1,082	124	31,930	–	–	15	33,151
Depreciation	(6,403)	(714)	(2,500)	–	–	(3,224)	(12,841)
Increase in fair value of investment properties	256,229	253,872	639,716	41,484	–	–	1,191,301
Additions to property, plant and equipment	7,154	751	–	–	–	3,041	10,946
Additions to investment properties	394,298	1,008,237	–	210	–	–	1,402,745

Geographical information

The Group's operations are located in Hong Kong, the PRC and the USA.

Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2018 HK\$'000	2017 HK\$'000 (Restated)	2018 HK\$'000	2017 HK\$'000 (Restated)
Hong Kong	–	–	2,254	1,029
The PRC	894,221	2,029,819	20,620,074	20,843,073
The USA	15,698	13,402	223,269	232,218
	909,919	2,043,221	20,845,597	21,076,320

Non-current assets exclude pledged bank deposits, deferred tax assets and other non-current assets.

No revenue is derived from a single customer of the Group which amounted for over 10% of the Group's total revenue (2017: Nil).

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11. Other Income and Gains, net

	2018 HK\$'000	2017 HK\$'000 (Restated)
Exchange gain (net)	120,275	84,391
Change in fair value of convertible bonds designated at FVTPL	(35,943)	(3,011)
Change in fair value of equity investment at FVTPL	350	–
Compensation to customers for late delivery of properties	–	(11,327)
Design service fee	–	5,357
(Loss) gain on disposal of properties, plant and equipment	(12,652)	9,629
Compensation to a former non-controlling shareholder of a subsidiary	–	(15,916)
Penalties for deferred settlement (Note)	(53,270)	(33,749)
Others	54,791	6,979
	73,551	42,353

Note: These represent the penalties required by certain suppliers as the Group failed to make payment according to the agreed settlement schedule for certain construction cost payables.

12. Finance Costs

	2018 HK\$'000	2017 HK\$'000 (Restated)
Interest on:		
– convertible bonds	42,856	50,416
– convertible securities	6,148	–
– loans from related companies	45,358	30,759
– senior notes	13,929	45,258
– bonds	3,391	3,411
– bank and other borrowings	694,438	632,146
– amount due to a former shareholder of a subsidiary (Note 26(a))	3,025	41,058
– amount due to a former non-controlling shareholder of a subsidiary	–	2,152
– others	–	312
	809,145	805,512
Issuing expenses of asset-backed security (“ABS”) (Note a)	–	21,166
Management fee to ABS scheme manager (Note b)	49,522	21,482
	858,667	848,160
Less: amount capitalised to investment properties under construction and properties under development for sales	(66,694)	(132,098)
	791,973	716,062

Notes:

- (a) During the year ended 31 December 2017, certain investment properties held by Shijiazhuang Lerthai Commercial Management Company Limited were securitised under an ABS arrangement. The ABS was issued to qualified investors with 3 years' life and can be extended for 2 years at the discretion of the ABS scheme manager. The issuing expenses represent professional fees incurred for the ABS.
- (b) Management fee to ABS scheme manager is charged at 1.3% (2017: 1.3%) of ABS securities in issue per annum.

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13. Income Tax Expense

	2018 HK\$'000	2017 HK\$'000 (Restated)
Current tax		
– PRC Enterprise Income Tax (“EIT”)	24,958	36,100
– LAT	2,746	29,006
	27,704	65,106
Deferred tax (Note 35)		
– Arising from fair value changes	325,225	299,441
– Arising from deductible depreciation of investment properties in the PRC	40,323	30,604
– Others	14,231	15,740
	379,779	345,785
	407,483	410,891

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit of the companies incorporated in Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the Group’s PRC subsidiaries is 25% (2017: 25%).

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on 27 January 1995, all gains arising from transfer of real estate property in the PRC effective from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land costs, borrowings costs and all property development expenditures.

The subsidiaries in the USA are subject to Federal Income Tax of 21% (2017: 21%) and State Tax of 8.8% (2017: 8.8%) on the taxable income. Certain subsidiaries are limited liability companies which are by default disregarded entities (i.e. viewed as divisions of the holding company) and taxed as part of their holding company for federal and state tax purposes.

No provision for income tax has been made as the Company and subsidiaries in Hong Kong and the USA incurred tax losses.

13. Income Tax Expense (continued)

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Profit before tax	1,117,160	995,988
Tax at PRC EIT rate of 25% (2017: 25%)	279,290	248,997
LAT	2,746	29,006
Income tax effect of LAT of 25% (2017: 25%)	(687)	(7,251)
Tax effect of income not taxable for tax purpose	(26,360)	(6,040)
Tax effect of expenses not deductible for tax purpose	68,395	41,326
Tax effect of tax losses not recognised	85,158	105,797
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,059)	(944)
Income tax expense	407,483	410,891

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14. Profit for the Year

The Group's profit for the year is stated after charging (crediting) the following:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Employee benefits expenses		
Directors' emoluments (Note 15)		
– Fees	1,971	1,677
– Salaries, bonuses and allowances	5,606	4,407
– Retirement benefits cost	115	100
	7,692	6,184
Other staff costs		
– Salaries, bonuses and allowances	60,029	87,967
– Retirement benefits cost	10,027	14,329
	70,056	102,296
Total employee benefits expenses	77,748	108,480
Less: amount capitalised to investment properties under construction and properties under development for sales	(12,077)	(16,086)
	65,671	92,394
Auditor's remuneration		
– audit services	1,600	1,800
– non-audit services	1,330	534
Operating lease payments	9,193	14,566
Depreciation	10,719	12,841
Cost of properties held for sale recognised as an expense	77,004	1,206,691
Gross rental and management fee income from investment properties	735,788	620,784
Less: direct operating expenses incurred for investment properties that generated rental and management fee income	(163,426)	(102,187)
	572,362	518,597

15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees

(a) Directors' and chief executive's emoluments

Director's and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

Name of directors	2018			Total HK\$'000
	Fees HK\$'000	Salaries and other allowances HK\$'000 (Note a)	Employer's contributions to retirement benefits schemes HK\$'000	
<i>Executive directors:</i>				
Mr. Yang (Note b)	360	3,281	18	3,659
Ms. Zhang Yan (Note c)	270	1,316	18	1,604
Mr. Yang Shao Xing Max (Note l)	357	1,009	79	1,445
<i>Non-executive director:</i>				
Mr. Yang Shao Ming (Note e)	3	–	–	3
<i>Independent non-executive directors:</i>				
Mr. Wan Kah Ming (Note f)	3	–	–	3
Mr. Wong Hon Kit (Note f)	3	–	–	3
Mr. Wong Tat Keung (Note d)	15	–	–	15
Mr. Hung Ka Hai Clement (Note j)	270	–	–	270
Mr. Lo Wai Hung (Note k)	330	–	–	330
Ms. Shek Pui Michelle (Note m)	360	–	–	360
	1,971	5,606	115	7,692

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15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)**(a) Directors' and chief executive's emoluments (continued)**

Name of directors	Fees HK\$'000	2017 (Restated)		Total HK\$'000
		Salaries and other allowances HK\$'000 (Note a)	Employer's contributions to retirement benefits schemes HK\$'000	
<i>Executive directors:</i>				
Mr. Yang (Note b)	251	3,398	18	3,667
Mr. Yang Shao Xing Max (Note l)	251	1,009	75	1,335
<i>Non-executive directors:</i>				
Mr. Lee Vincent Marshall Kwan Ho (Note h)	89	–	–	89
Ms. Dai Hui (Note i)	98	–	7	105
<i>Independent non-executive directors:</i>				
Mr. Fan Chun Wah Andrew (Note g)	–	–	–	–
Mr. Fan Ren Da Anthony (Note h)	130	–	–	130
Mr. Hung Ka Hai Clement (Note j)	307	–	–	307
Mr. Lo Wai Hung (Note k)	300	–	–	300
Ms. Shek Pui Michelle (Note m)	251	–	–	251
	1,677	4,407	100	6,184

15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

(a) Directors' and chief executive's emoluments (continued)

Notes:

- a. Other allowances represent operating lease rental of a quarter provided by the Group to Mr. Yang.
- b. Mr. Yang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.
- c. Ms. Zhang Yan was appointed as an executive director on 1 April 2018 and was appointed as the co-chief executive officer of the Company on 27 December 2018.
- d. Mr. Wong Tat Keung was appointed as an independent non-executive director on 30 November 2018.
- e. Mr. Yang Shao Ming was appointed as a non-executive director on 27 December 2018.
- f. Mr. Wan Kah Ming and Mr. Wong Hon Kit were appointed as an independent non-executive director on 27 December 2018.
- g. Mr. Fan Chun Wah Andrew resigned as an independent non-executive director on 1 January 2017.
- h. Mr. Lee Vincent Marshall Kwan Ho and Mr. Fan Ren Da Anthony retired as a non-executive director and an independent non-executive director respectively on 30 June 2017.
- i. Ms. Dai Hui was resigned as non-executive director on 17 July 2017.
- j. Mr. Hung Ka Hai Clement was appointed as an independent non-executive director on 24 February 2017; re-designated as a non-executive director on 3 March 2017; re-designated as an independent non-executive director on 30 June 2017 and resigned as an independent non-executive director on 30 September 2018.
- k. Mr. Lo Wai Hung was appointed as an independent non-executive director on 3 March 2017 and resigned as an independent non-executive director on 30 November 2018.
- l. Mr. Yang Shao Xing Max resigned as an executive director on 27 December 2018.
- m. Ms. Shek Pui Michelle resigned as an independent non-executive director on 31 December 2018.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as Directors.

The independent non-executive directors' emoluments shown above were for their services as Directors.

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

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15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

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

- (i) On 16 May 2013, Mr. Yang, China Lerthai and the Company entered into a deed of non-completion (the "Deed") pursuant to which subject to the exceptions set out in the Deed, (a) Mr. Yang, China Lerthai and their respective associates will not, directly or indirectly, carry on, engage, invest or hold any right or interest or be involved in the real estate development business; and (b) in the event any of Mr. Yang, China Lerthai or their associates becomes aware of any new business opportunity relating to the real estate development business, Mr. Yang and China Lerthai must first offer to make available to the Board for consideration, and will not invest in such new business opportunity unless it is declined by the Board in accordance with the terms of the Deed. The Deed will expire on the earlier of (a) the day on which the shares of the Company cease to be listed on the Stock Exchange; and (b) the day on which China Lerthai, Mr. Yang and any of its/his associates, taken as a whole, cease to own either directly or indirectly, in aggregate, 30% (or such other percentage as may from time to time be specified in the Listing Rules as a controlling shareholder of a listed issue) or more of the then issued share capital of the Company.

Details of the Deed are set out in the Company's announcement dated 16 May 2013.

- (ii) Pursuant to the loan agreements dated 12 June 2017 and 20 April 2018 and the supplement loan agreements dated 14 August 2015, 3 November 2017 and 30 June 2018, Global Elite Global Investments Limited, a related company controlled by Mr. Yang provides unsecured loan facility and made loans to the Group, details of which are set out in notes 34, 39 and 44 to the consolidated financial statements.

Pursuant to the loan agreement dated 20 April 2018 and the supplement loan agreement dated 30 June 2018, Lerthai Investment Group Ltd, a related company controlled by Mr. Yang and Mr. Yang Shao Xing Max provides unsecured loan facility and made loans to the Group, details of which are set out in notes 34, 39 and 44 to the consolidated financial statements.

(c) Five highest paid employees

The five highest paid employees of the Group during the year included two directors (2017: one director), details of whose remuneration are set out in note 15(a) above. Details of the remuneration for the year of the remaining three (2017: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Salaries and other allowances	5,180	7,206
Employer's contributions to retirement benefits schemes	142	212
	5,322	7,418

15. Directors' and Chief Executive's Emoluments and Five Highest Paid Employees (continued)

(c) Five highest paid employees (continued)

The number of the highest paid employees who are not the Directors and whose remuneration falls within the following bands:

	Number of individuals	
	2018	2017 (Restated)
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	2
	3	4

16. Dividend

No dividends was paid or proposed for ordinary shareholders of the Company during 2018, nor has any dividend been proposed at the end of the reporting period (2017: Nil).

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17. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of Company)	709,677	585,097
Effect of diluted potential ordinary shares:		
Interest on convertible bonds	–	12,964
Interest on convertible securities	6,148	–
Change in fair value of convertible bonds designated at FVTPL	–	783
Earnings for the purpose of diluted earnings per share	715,825	598,844
	2018 '000	2017 '000 (Restated)
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	455,942	338,766
Effect of share options	6,392	–
Effect of conversion of convertible bonds	–	30,334
Effect of conversion of convertible securities	506,264	–
Number of ordinary shares for the purpose of diluted earnings per share	968,598	369,100

For the year ended 31 December 2017, the computation of diluted earnings per share did not assume the exercise of the Company's share options granted because the exercise price of those share options was higher than the average market price of shares.

18. Investment Properties

	Completed investment properties in the USA HK\$'000	Completed investment properties in the PRC HK\$'000	Investment properties under construction in the PRC HK\$'000	Leasehold land for future development HK\$'000	Total HK\$'000
At fair value					
At 1 January 2017, as restated	186,095	13,759,498	2,782,571	130,016	16,858,180
Additions	210	–	1,402,535	–	1,402,745
Transfer	–	2,373,488	(2,373,488)	–	–
Change in fair value included in profit or loss	41,484	884,283	255,142	10,392	1,191,301
Effect of foreign exchange difference	1,551	1,215,602	192,089	10,654	1,419,896
At 31 December 2017 and 1 January 2018, as restated	229,340	18,232,871	2,258,849	151,062	20,872,122
Additions	18,841	8,911	88,181	–	115,933
Disposals	–	(16,075)	–	–	(16,075)
Transfer	–	16,375	(254,056)	–	(237,681)
Change in fair value included in profit or loss	(25,488)	1,156,305	250,824	6,059	1,387,700
Effect of foreign exchange difference	576	(965,592)	(117,152)	(7,850)	(1,090,018)
	223,269	18,432,795	2,226,646	149,271	21,031,981
Less: Non-current assets held for sale (Note 25)	–	(373,461)	–	–	(373,461)
At 31 December 2018	223,269	18,059,334	2,226,646	149,271	20,658,520

All of the Group's property interests held to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties as at 31 December 2018 have been arrived at on the basis of valuations carried out on those dates by RHL Appraisal Limited and Continental Realty Advisors Valuation Services Group (2017: Colliers International (Hong Kong) Company Limited and Cushman & Wakefield and Los Angeles Valuation Group, Inc.), independent qualified professional valuers not connected to the Group.

For the year ended 31 December 2018

18. Investment Properties (continued)

The values of the completed investment properties are derived from the capitalisation of net income method with due allowance for the reversionary income.

For investment properties under construction located in the PRC that are measured at fair value, residual method of valuation is adopted. The value is based on the development potential of the properties as if they were completed in accordance with the existing development controls at the date of valuation. The value has also taken into consideration all costs of development and allowance of profit required for the development, which duly reflected the risks associated with the development.

The Group's investment properties with an aggregate carrying amount of HK\$11,416,265,000, HK\$349,886,000, HK\$7,786,814,000 and HK\$765,356,000 (2017: HK\$11,115,309,000, HK\$368,502,000, HK\$8,074,539,000 and HK\$806,077,000) as at 31 December 2018 were pledged to secure bank and other borrowings granted to the Group, pledged to secured borrowings obtained by related companies, pledged to secured borrowings obtained by unrelated companies and restricted in rights respectively.

19. Property, Plant and Equipment

	Buildings HK\$'000	Furniture and fixtures and computer equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost							
At 1 January 2017, as restated	44,850	22,394	34,290	11,331	152	437	113,454
Additions	-	3,938	6,738	270	-	-	10,946
Transfer from construction in progress	-	195	-	-	-	(195)	-
Disposals	(21,905)	(1,110)	-	(663)	(2)	-	(23,680)
Effect of foreign exchange difference	2,699	1,587	2,888	587	12	27	7,800
At 31 December 2017 and 1 January 2018, as restated	25,644	27,004	43,916	11,525	162	269	108,520
Additions	-	357	-	-	-	-	357
Transfer from construction in progress	-	254	-	-	-	(254)	-
Disposals	-	(3,215)	(13,641)	(2,170)	-	-	(19,026)
Effect of foreign exchange difference	(1,383)	(3,779)	(2,176)	(360)	(7)	(15)	(7,720)
At 31 December 2018	24,261	20,621	28,099	8,995	155	-	82,131
Depreciation							
At 1 January 2017, as restated	5,936	14,730	21,495	7,204	49	-	49,414
Charge for the year	2,566	3,515	5,255	1,454	51	-	12,841
Disposals	(2,861)	(1,045)	-	(276)	(1)	-	(4,183)
Effect of foreign exchange difference	457	1,110	1,871	448	6	-	3,892
At 31 December 2017 and 1 January 2018, as restated	6,098	18,310	28,621	8,830	105	-	61,964
Charge for the year	2,083	5,958	1,411	1,219	48	-	10,719
Disposals	-	(3,114)	(1,158)	(2,102)	-	-	(6,374)
Effect of foreign exchange difference	19	(2,757)	(1,390)	(311)	(9)	-	(4,448)
At 31 December 2018	8,200	18,397	27,484	7,636	144	-	61,861
Carrying amount							
At 31 December 2018	16,061	2,224	615	1,359	11	-	20,270
At 31 December 2017, as restated	19,546	8,694	15,295	2,695	57	269	46,556

As at 31 December 2018, the carrying amount of property, plant and equipment pledged as security for the Group's bank and other borrowings and for the related parties' bank borrowings amounted to HK\$16,061,000 (2017: HK\$19,096,000).

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20. Deposit

According to the relevant agreements under the ABS scheme, a deposit of RMB110,000,000 (equivalent to HK\$125,246,000) (2017: RMB110,000,000 (equivalent to HK\$131,879,000)) shall be retained by the ABS scheme manager to secure the fixed return and principal amount payable to the class A securities holders at any time during the term of the ABS.

21. Pledged Bank Deposits, Restricted Bank Balances and Cash and Bank Balances

Pledged bank deposits

	2018 HK\$'000	2017 HK\$'000 (Restated)
In relation to		
Bank and other borrowings of the Group (Note a)	1,709,399	1,991,397
Mortgage loans applied by customers (Note b)	33,936	31,448
	1,743,335	2,022,845
Less: Amounts shown under non-current assets	(1,736,463)	(2,015,770)
Amounts shown under current assets	6,872	7,075

Notes:

- (a) Deposits amounting to HK\$1,709,339,000 (2017: HK\$1,991,397,000) have been pledged for securing the bank borrowings obtained by a subsidiary of the Company and thus, are classified as non-current assets according to maturity dates of the borrowings. During the year ended 31 December 2018, interest receivables of HK\$41,561,000 (2017: HK\$25,763,000) arising from this deposit are classified as non-current assets.
- (b) The pledged bank deposits are pledged for the guarantees given to banks with respect to loans procured by the purchasers of the Group's properties and secured for the mortgage loans applied by the customers; and will be released upon the banks obtained the building ownership certificate from the customers as a pledge for the mortgage loans. Details of which are set out in note 42 to the consolidated financial statements.

Restricted bank balances

Restricted bank balances of HK\$11,135,000 (2017: HK\$289,766,000) carry interest at market rate of 0.35% (2017: 0.35%) per annum and can only be applied to settle the principal and interest of bank and other borrowings (2017: can be applied to settle the bills issued by the Group to its creditors and the principal and interest of bank and other borrowings). Included in this restricted bank balances, HK\$22,000 (2017: Nil) has been frozen by the banks.

As at 31 December 2018, the cash and bank balances of the Group denominated in RMB amounted to HK\$166,337,000 (2017: HK\$298,258,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

22. Properties Under Development for Sales And Properties Held for Sales**(a) Properties under development for sales**

	2018 HK\$'000	2017 HK\$'000 (Restated)
Cost		
At 1 January	2,247,780	3,413,157
Additions	279,824	31,733
Transfer from investment properties	237,681	–
Transfer to properties held for sale	–	(1,350,652)
Effect of foreign exchange difference	(110,072)	153,542
At 31 December	2,655,213	2,247,780
Properties under development for sales of which:		
– expected to be completed within 1 year	2,411,506	2,011,533
– expected to be completed over 1 year	243,707	236,247
	2,655,213	2,247,780

As at 31 December 2018, the Group's properties under development for sales of HK\$841,513,000 (2017: HK\$389,896,000) were pledged to secure bank borrowings granted to the Group and were restricted in right.

(b) Properties held for sales

The Group's properties held for sales are situated in the PRC. All the properties held for sales are stated at lower of cost and net realisable value. In the opinion of the Directors, properties held for sales would be realised within twelve months.

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23. Trade and Other Receivables, Deposits and Prepayments

	2018 HK\$'000	2017 HK\$'000 (Restated)
Trade receivables	71,296	57,523
Prepayment of business taxes and other PRC taxes	145,329	146,880
Prepayment for purchase of construction materials	180	25,224
Prepaid expense under ABS scheme (Note)	80,917	85,202
Prepayment for construction costs	30,277	19,542
Other receivables, deposits and prepayments	113,956	46,964
	441,955	381,335

Note: According to the relevant agreements under the ABS scheme, there are RMB71,067,000 (equivalent to HK\$80,917,000) (2017: RMB71,067,000 (equivalent to HK\$85,202,000)) retained by the ABS scheme manager for various operating expenses to be incurred.

Trade receivables include consideration in respect of properties sold and properties lease. Considerations in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Properties lease receivables represent rental receivables due from the tenants and property manager appointed by the Group. Rental and management fee from tenants are payable in accordance with the terms of relevant agreements. Pursuant to the agreement between the property manager and the Group, the property manager shall pay the rental collected on behalf of the Group to the Group within 30 days (2017: 30 days).

The aging analysis of trade receivables, based on the date of revenue recognition or invoice date of rental and services, is as follows:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Within 30 days	63,761	11,680
Over 30 days but within 1 year	521	43,770
Over 1 year	7,014	2,073
	71,296	57,523

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

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23. Trade and Other Receivables, Deposits and Prepayments (continued)

	Current	Over 30 days past due	Over 60 days past due	Over 120 days past due	Total
At 31 December 2018					
Weighted average expected loss rate	0%	0%	0%	0%	0%
Receivable amount (HK\$'000)	63,761	105	416	7,014	71,296
Loss allowance (HK\$'000)	–	–	–	–	–
At 31 December 2017, as restated					
Weighted average expected loss rate	0%	0%	0%	0%	0%
Receivable amount (HK\$'000)	27,886	–	–	29,637	57,523
Loss allowance (HK\$'000)	–	–	–	–	–

Trade receivables with a contractual amount of Nil (2017: Nil) written off during the year are still subject to enforcement activity.

24. Amounts Due from Related Parties

Amounts due from related parties disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance are as follows:

Name	Name of director having beneficial interest	At	At	Maximum amount outstanding during the year
		31 December 2018	1 January 2018	
		HK\$'000	HK\$'000	HK\$'000
Lerthai Property Services Co., Limited (formerly known as Shijiazhuang Lerthai Property Services Co., Limited)	Mr. Yang	–	8	8
Mr. Yang	N/A	–	931,751	931,751
		–	931,759	

The above advances were unsecured, interest-free and had no fixed repayment terms.

Notes to the Consolidated Financial Statements

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25. Non-current Assets Held for Sale

Pursuant to the ruling made by Hebei Shijiazhuang Intermediate People's Court on 17 July 2018, Shijiazhuang Lerthai Real Estate Development Company Limited ("SJZ Property Development"), a wholly-owned subsidiary of the Company, would transfer certain investment properties held by it to a creditor, China Railway Construction Group Co., Ltd., to offset the construction fees and accumulated interests payable of RMB418,000,000 due to the creditor. The fair value of the captioned investment properties as at 31 December 2018 was RMB328,000,000 (equivalent to HK\$373,461,000). As at 31 December 2018, SJZ Property Development was in the process of transfer of these investment properties. The assets, which are expected to be sold within twelve months, have been classified as non-current assets held for sale and are presented separately in the consolidated statement of financial position.

26. Trade and Other Payables and Accruals

	2018 HK\$'000	2017 HK\$'000 (Restated)
Construction cost payables	1,131,595	990,367
Accrued construction costs	1,303,791	1,519,354
Deposits received from suppliers/contractors on contracts tendering	11,174	14,835
Rental deposits	86,034	126,478
Interest payables	118,211	135,667
Bills payable	–	273,997
Other tax payables	23,680	62,225
Other payables and accruals	492,342	149,321
Advanced receipts from tenants	38,386	57,484
Compensation for relocation to an independent third party	–	43,160
Amount due to a former shareholder of a subsidiary (Note a)	–	350,444
Amount due to a former non-controlling shareholder of a subsidiary (Note b)	–	115,490
Penalties payable (Note c)	50,251	60,330
	3,255,464	3,899,152

Notes:

- (a) On 3 May 2016, SJZ Property Development, Handan Municipal Investment Real Estate Development Company Limited ("Handan Development", an independent third party, a former shareholder of a subsidiary), Handan LT Real Estate Development Company Limited ("Handan LT"), and Handan LT Municipal Investment Real Estate Development Company Limited ("Handan LT Municipal") entered into a loan purchase agreement, pursuant to which Handan Development agreed to dispose of and SJZ Property Development agreed to purchase the loan advanced by Handan Development to Handan LT Municipal and Handan Development ceased its participation in the management and operation of Handan LT Municipal. The loan bears interest at 10.46% per annum.
- (b) The amount was unsecured and bore interest of RMB1,960,000 per annum. The amount was fully settled during 2018.
- (c) Tangshan Lerthai Properties Development Co. Ltd. ("TS Lerthai Development"), Tangshan LT Shopping Mall Ltd. ("TS Lerthai Shopping") and SJZ Property Development was accused by certain suppliers due to overdue construction payment. The balances at 31 December 2018 and 2017 were HK\$50,251,000 and HK\$60,330,000 respectively, which include overdue interest claimed by the suppliers. TS Lerthai Development, TS Lerthai Shopping and SJZ Property Development received court orders which restricted it from selling or pledging certain designated units for a period of three years from date of the court order. As at the date of this report, TS Lerthai Development and TS Lerthai Shopping are still in the course of negotiation with the suppliers for settlement.

26. Trade and Other Payables and Accruals (continued)

The aging analysis of construction cost payables, based on the invoice date, is as follows:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Within 1 year	635,482	167,446
Over 1 year but within 3 years	491,293	30,173
Over 3 years	4,820	792,748
	1,131,595	990,367

27. Contract Liabilities

Disclosures of revenue-related items:

	At 31 December 2018 HK\$'000	At 31 December 2017 HK\$'000 (Restated)	At 1 January 2017 HK\$'000 (Restated)
Contract liabilities	1,922,370	1,825,999	2,169,802
Contract receivables (included in trade receivables)	6,231	6,562	11,555
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:			
– 2018	N/A	86,593	
– 2019	1,922,370	1,739,406	
	1,922,370	1,825,999	

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For the year ended 31 December 2018

27. Contract Liabilities (continued)

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000 (Restated)
Revenue recognised in the year that was included in contract liabilities at beginning of year	81,960	1,201,313

Significant changes in contract liabilities during the year:

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000 (Restated)
Increase due to operations in the year	212,472	1,043,101
Transfer of contract liabilities to revenue	(116,101)	(1,386,904)

A contract liability is deposits received from sales of properties. It represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Included in balance above is an amount of HK\$639,619,000 (2017: HK\$664,510,000) representing the deposit received from government on 11 April 2014. Handan LT Municipal, a subsidiary of the Group entered into an agreement with local government, in which the local government committed to prepay Handan LT Municipal for construction cost of relocated residence, and in return, Handan LT Municipal will compensate certain residential properties to those originally resident who lived in the site which acquired by Handan LT Municipal for property development.

28. Amounts Due to Related Parties

The amounts represent (a) certain operating expenses of the Group in the PRC paid on behalf of the Group by the related companies which are unsecured, interest-free and repayable on demand and (b) accrued interest on loan from a related company. These related companies are controlled by Mr. Yang.

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29. Bank and Other Borrowings

	2018 HK\$'000	2017 HK\$'000 (Restated)
Secured bank borrowings with carrying amount repayable:		
Within 1 year (Note a)	1,815,517	1,185,487
Over 1 year but within 2 years	2,989,767	1,801,676
Over 2 years but within 5 years	789,278	2,844,338
Beyond 5 years	2,178,011	1,614,155
	7,772,573	7,445,656
Secured other borrowings with carrying amount repayable:		
Within 1 year	–	359,670
Over 1 year but within 5 years (Note b)	3,529,660	3,716,590
	3,529,660	4,076,260
Total secured bank and other borrowings	11,302,233	11,521,916
Unsecured other borrowings with carrying amount repayable:		
Within 1 year	100,000	–
Over 1 year but within 5 years	405,857	–
Beyond 5 years	–	181,140
Total unsecured other borrowings	505,857	181,140
Total bank and other borrowings	11,808,090	11,703,056
Less: Amounts shown under non-current liabilities	(9,892,573)	(10,157,899)
Amounts shown under current liabilities (Note c)	1,915,517	1,545,157

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29. Bank and Other Borrowings (continued)

Notes:

- (a) As at 31 December 2017, the Group had not met certain financial covenant for its borrowings and an amount of HK\$631,181,000 was then reclassified as current liabilities according to the loan agreement. Except for this, the remaining amounts due set out above are based on the scheduled repayment dates set out in the loan agreements. The Group actively negotiated with the bank for the rectification. The Group met such financial covenant as at 31 December 2018.
- (b) On 3 August 2017, SJZ Property Development issued leased ABS of RMB3,500,000,000 in the Shenzhen Stock Exchange. The ABS scheme includes RMB3,100,000,000 class A securities and RMB400,000,000 class B securities. Class A securities are held by qualified investors who enjoy fixed return of income from the ABS (5.74% per annum for class A1 securities and 6.9% per annum for class A2 securities), the entire class B securities are held by SJZ Property Development which entitle to receive any residual income from the ABS. Income of the ABS are derived from the rental and operational income from the investment properties securitised by SJZ Property Development. In the event that the rental and operating income is not sufficient to cover the expected return payable to class A securities holders, SJZ Property Development is obliged to compensate the shortfall so that the class A securities holders will still enjoy the fixed expected return. The ABS has a term of three years with an option to extend further two years by the ABS scheme manager. Upon expiry of the term, the principal amount of RMB3,100,000,000 and the outstanding fixed return as of on that date shall be returned to the class A securities holders, and the residual amounts are to be retained by SJZ Property Development.
- As the underlying investment properties did not meet the criteria of derecognition, the Group did not derecognise such assets, and the proceeds received was treated as financial liabilities. As at 31 December 2018, the carrying amount of such transferred but not derecognised investment properties amounted to HK\$7,696,936,000 (2017: HK\$7,979,878,000) and the corresponding the carrying amount of recognised financial liabilities was HK\$3,529,660,000 (2017: HK\$3,716,590,000).
- (c) Subsequent on 28 March 2019, a bank borrowing amounting to HK\$1,251,750,000 included in the current liabilities of HK\$1,915,517,000 as at 31 December 2018 had been reclassified from current liabilities to non-current liabilities based on supplemental agreements with a lender.

The carrying amounts of the Group's bank and other borrowings and weighted average effective interest rates per annum are as follows:

	2018 HK\$'000	Effective interest rate	2017 HK\$'000 (Restated)	Effective interest rate (Restated)
Fixed rate borrowings	1,567,348	1.20%	3,597,946	1.20% to 13.65%
Floating rate borrowings	10,240,742	4.25% to 11.95%	8,105,110	4.25% to 11.15%

The bank and other borrowings are:

- guaranteed by the related companies controlled by Mr. Yang and/or Mr. Yang and his spouse ("Mrs. Yang");
- personal guarantee provided by Mr. Yang and/or Mrs. Yang;
- secured by the Group's certain investment properties under construction;
- secured by the Group's certain investment properties;
- secured by the Group's certain property, plant and equipment;
- secured by the Group's certain properties under development for sale;
- secured by the Group's certain pledged bank deposits;
- pledged by equity and charged interest held by the Group and an independent third party;
- secured by an independent third party's investment properties under construction and land use right;
- secured by the assignment of all rents of certain investment properties located in the PRC and the USA; and
- secured by certain convertible securities held by Mr. Yang.

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30. Convertible Bonds

	2018 HK\$'000	2017 HK\$'000 (Restated)
At 1 January	451,873	444,518
Issue of convertible bonds	–	450,000
Expense on issue of convertible bonds	–	(10,968)
Repayment of convertible bonds	(80,000)	(385,000)
Interest charged during the year	42,856	50,416
Interest paid	(41,073)	(100,104)
Change in fair value	6,707	3,011
At 31 December	380,363	451,873
Analysed for reporting purposes as:		
Current liabilities	380,363	77,167
Non-current liabilities	–	374,706
	380,363	451,873

On 26 January 2017, the Company issued convertible bonds to an independent third party in the principal amount of HK\$450,000,000 (“2017 Convertible Bonds”) with a maturity period of three years to 25 January 2020 (“Maturity Date”). Net proceeds from the issue shall be solely used to finance the repayment of another convertible bonds to an independent third party in the principal amount of HK\$550,000,000 issued on 10 January 2014. The 2017 Convertible Bonds are denominated in HK\$ and bear interest at 8% per annum. The interests shall be payable semi-annually in arrears, commencing on 30 June 2017. In addition, on the dates when all or a portion of the outstanding 2017 Convertible Bonds were redeemed or if the 2017 Convertible Bonds have not been fully redeemed prior to Maturity Date, on such redemption date or on Maturity Date, as the case may be, the Company shall pay to the bondholders an additional interest in an amount equal to 1% per annum of the principal amount of the 2017 Convertible Bonds so redeemed or matured.

Pursuant to the terms and conditions of the 2017 Convertible Bonds, the Company is required to repay certain amounts of the principal on the first and second anniversary of the date of issue of the 2017 Convertible Bonds. The Company may at any time on or after the date falling the eleventh calendar month after the date of issue and up to the Maturity Date by at least thirty days’ notice in writing to the bondholders redeem the whole or part of the outstanding principal amount of the bonds, provided that the principal amount to be so redeemed on each occasion shall not be less than the lesser of (i) HK\$50,000,000; and (ii) 100% of the then outstanding principal amount of the 2017 Convertible Bonds. Details of the repayment terms and the conditions are set out in the Company’s announcements dated 22 January 2017.

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30. Convertible Bonds (continued)

The 2017 Convertible Bonds can be converted into shares at a conversion price of HK\$3.90 per share up to an aggregate of 30,000,000 shares or a number of shares that represents 8.14% of the then issued share capital of the Company as enlarged by and immediately following the issue of shares upon such conversion, whichever is higher. The details of the terms of conversion and redemption and other terms of the 2017 Convertible Bonds are set out in the announcement issued by the Company on 22 January 2017. As at 31 December 2018, the principal amount of convertible bonds with conversion features (“CB with Conversion Feature”) was HK\$117,000,000 and convertible bonds without conversion features (“Straight Note”) was HK\$253,000,000.

As at 31 December 2018, the Group did not meet certain covenants of the 2017 Convertible Bonds which was therefore reclassified as current liabilities. Subsequent on 28 March 2019, amounting to HK\$253,530,000 included in the current liabilities of HK\$380,363,000 as at 31 December 2018 had been reclassified from current liabilities to non-current liabilities base on supplemental agreements with a lender.

The 2017 Convertible Bonds are secured by the Company’s shares held by China Lerthai and guaranteed by Mr. Yang.

The convertible bonds have been designated as financial liabilities at FVTPL as they contain more than one non-closely related embedded derivatives. The fair value of the convertible bonds are determined by aggregating the fair value of (i) the Straight Note and (ii) CB with Conversion Feature. The fair value of the Straight Note was calculated as the present value of the contractually determined stream of future cash flows discounted at an interest rate which are determined by referencing the HK\$ Fund Note plus a credit spread by reference to the credit analysis of the Company and the market rate of comparable companies with similar credit ratio. The fair value of CB with Conversion Feature is determined using binomial option pricing model with the following key inputs.

	At 31 December	
	2018	2017
Share price of the Company	HK\$6.13	HK\$5.00
Risk free rates	1.55%–1.73%	1.00%–1.32%
Discount rate	11.09%–11.27%	8.65%–8.97%
Dividend yield	0%	0%
Option life	1.07 years	2.07 years
Volatility	27.67%	32.23%–33.66%
Exercise price	HK\$3.90	HK\$3.90

The above risk free rates were determined with reference to yields of 0.07 year and 1.07 years HKMA Hong Kong Exchange Fund Bills available as of 31 December 2018 (2017: 0.07 year, 1.07 years, and 2.07 years HKD Hong Kong Sovereign). The expected volatility was determined based on the historical volatility of the Company’s share price for the past 0.07 year and 1.07 years (2017: 0.07 year, 1.07 years and 2.07 years).

As at 31 December 2018, an increase in discount rate would result in a decrease in the fair value of convertible bonds, and vice versa. If the discount rate is 10% higher and lower while all other variables are held constant, the carrying amount of the convertible bonds would decrease by HK\$2,292,000 (2017: HK\$1,634,000) and increase by HK\$2,336,000 (2017: HK\$1,671,000) respectively.

30. Convertible Bonds (continued)

The fair values of convertible bonds at 31 December 2018 were arrived at on the basis of a valuation carried out on that dates by Unicorn Consulting and Appraisal Limited (2017: Asset Appraisal Limited), an independent qualified professional valuer not connected to the Group. They are categorised as Level 3 under the fair value hierarchy set out in HKFRS 13 Fair Value Measurement. Level 3 fair value measurements are those derived from valuation techniques that include inputs for that asset or liability that are not based on observable market data (unobservable inputs).

31. Senior Notes

	2018 HK\$'000	2017 HK\$'000
At 1 January	93,297	271,292
Principal repayment	–	(192,000)
Interest charged during the year	13,929	45,258
Interest paid	(7,000)	(31,253)
At 31 December	100,226	93,297

During the year ended 31 December 2016, the Company issued senior notes with aggregated principal amount of HK\$100,000,000 to independent third parties (“2018 Senior Notes”). The 2018 Senior Notes are denominated in HK\$, unsecured, transferrable, bear fixed interest at 7% per annum and will be redeemed at 100% of their principal amount on 29 November 2018. The Company may, on or at any time after the issue date and prior to 29 November 2018, upon giving not less than five business days’ prior written notice to the noteholders, redeem the 2018 Senior Notes, in whole but not in part, at 101% of the principal amount, together with accrued interest.

On 22 November 2018, the Company and the trustee have entered into a supplemental trust deed pursuant to which the 2018 Senior Notes is extended to 29 November 2019 and the interest rate is adjusted to 9% per annum for such extended year.

As at 31 December 2018 and 2017, the principal amount of the 2018 Senior Notes is HK\$100,000,000.

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32. Convertible Securities

On 20 April 2018, the Company issued convertible securities to Mr. Yang with the principal amount of HK\$4,000,000,000 (“2018 Convertible Securities”) as consideration for the acquisition of the entire issued share capital of the Target Companies. The 2018 Convertible Securities has no maturity date, bears a coupon rate of 2% per annum and will cease to bear any coupon after the fifth anniversary of the date of issue. During the first five years, the coupon shall be accrued on the outstanding principal amount of the 2018 Convertible Securities and payable annually subject to the Company’s sole discretion to defer the coupon payment for a maximum period of 10 years from the dates when the relevant coupon fall due by giving notice to the security holders. Details of the terms and the conditions of the 2018 Convertible Securities are set out in the Company’s circular dated 28 March 2018.

The 2018 Convertible Securities with principal amount of HK\$4,000,000,000 can be converted into shares at a conversion price of HK\$4.5 per share (subject to anti-dilution clauses) up to an aggregate of 888,888,888 shares. As at 31 December 2018, the principal amount of the 2018 Convertible Securities was HK\$2,429,000,000.

The 2018 Convertible Securities are issued in HK\$. However, upon issuance of the 2018 Convertible Securities and throughout the period until maturity date, the 2018 Convertible Securities shall be translated at the exchange rate at the date of issuance of RMB1.00 = HK\$1.23965. Any payment in the event of redemption by the Company shall be made in RMB by reference to the exchange rate of RMB1.00 = HK\$1.23965. Any conversion shall be made by reference to the principal amounts stated in HK\$.

The 2018 Convertible Securities contain two components, liability (together with embedded derivative for early redemption right by the Company which is closely related to the host debt) and equity elements. At the date of the issuance, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts and the fair value of the conversion option for the security holders to convert the notes into equity which is included in equity (equity component of 2018 Convertible Securities) is determined using the Binomial Model.

The fair values of the embedded derivative for conversion rights by the security holders at the date of the issuance are calculated using the Binomial Model. The inputs into the Binomial Model were as follows:

	At 20 April 2018
Share price of the Company	HK\$4.43
Risk free rate	2.10%
Dividend yield	0%
Volatility	48.66%
Exercise price	HK\$4.50

32. Convertible Securities (continued)

The fair values of the liability component and equity component for 2018 Convertible Securities at the date of the issuance were as follows:

	HK\$'000
Liability component	87,951
Equity component	3,961,106

The effective interest rate of the liability component is 11.81% for 2018 Convertible Securities at the date of the issuance.

The movement of the liability component of the 2018 Convertible Securities for the year is set out below:

	2018 HK\$'000
At 1 January	–
Issue of convertible securities	87,951
Interest charged during the year	6,148
Conversion (Note 36)	(32,686)
Effect of foreign exchange difference	(4,969)
At 31 December	56,444

The fair value of the 2018 Convertible Securities at initial recognition were arrived at on the basis of a valuation carried out on those dates by Colliers International (Hong Kong) Company Limited, an independent qualified professional valuer not connected to the Group. They are categorised as Level 3 under the fair value hierarchy set out in HKFRS 13. Level 3 fair value measurements are those derived from valuation techniques that include inputs for that asset or liability that are not based on observable market data (unobservable inputs).

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33. Bonds

	2018 HK\$'000	2017 HK\$'000
At 1 January	38,871	38,660
Interest charged during the year	3,391	3,411
Interest paid	(3,200)	(3,200)
At 31 December	39,062	38,871
Analysed for reporting purposes as:		
Current liabilities	39,062	–
Non-current liabilities	–	38,871
	39,062	38,871

The bonds are denominated in HK\$, transferrable, unsecured, matured on eight years after the date of issue and bear interest at 8% per annum. The Company may at any time prior to the maturity date redeem the bonds at 101% of the outstanding principal amount (in whole or in part) in cash by serving at least five business days' prior written notice to the bondholders. In the opinion of the Directors, the fair value of the option to early redeem the bonds is insignificant at initial recognition and at the end of the reporting period.

As at 31 December 2018, the Group did not meet certain covenants of the bonds which was therefore reclassified as current liabilities. Subsequent on 28 March 2019, all the bonds had been reclassified from current liabilities to non-current liabilities base on supplemental agreements with a lender.

The bonds will mature on the date immediately following eight years after issuance which are 4 November 2022 and 6 January 2023. The effective interest rates of the bonds are 8.38% and 8.17% per annum.

34. Loans from Related Companies

On 12 June 2014, a subsidiary of the Company entered into a loan agreement with a related company controlled by Mr. Yang, pursuant to which the related company agreed to provide a revolving loan with a principal amount of RMB400,000,000 (equivalent to HK\$502,800,000) to a subsidiary of the Company. On 14 August 2015, a subsidiary of the Company entered into a supplementary loan agreement with the related company pursuant to which the related company agreed to increase the revolving loan to RMB700,000,000 (equivalent to HK\$847,000,000) while other terms remain the same. On 3 November 2017, a subsidiary of the Company entered into a supplementary loan agreement with the related company pursuant to which the related company agreed to extend the revolving loan to 31 December 2020. The above loans were unsecured, interest bearing at 12% per annum and repayable in full on 31 December 2020. From 1 January 2018, the interest rate was amended from 12% to 8% per annum.

On 20 April 2018, certain subsidiaries of the Company entered into a loan agreement with certain related companies controlled by Mr. Yang, pursuant to which the related companies agreed to provide loans with principal amounts of HK\$15,000,000 and RMB502,718,000 to the subsidiaries of the Company. The loans are unsecured, interest bearing at 10% per annum and repayable in full on 31 December 2020.

On 30 June 2018, certain wholly-owned subsidiaries of the Company had entered into several supplemental loan agreements (the "Perpetual Loan Agreements") with the related companies controlled by Mr. Yang. Upon the effective of Perpetual Loan Agreements, the loans from related companies did not have fix repayment date and reclassified as "Perpetual Capital Instruments" in the consolidated statements of financial position. Please refer to note 39 to the consolidated financial statements for more details.

35. Deferred Taxation

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years.

Deferred tax assets

	Tax losses HK\$'000
At 1 January 2017, as restated	(22,931)
Charge to profit or loss (Note 13)	17,540
Effect of foreign exchange difference	(1,137)
At 31 December 2017 and 1 January 2018, as restated	(6,528)
Effect of foreign exchange difference	329
At 31 December 2018	(6,199)

Deferred tax liabilities

	Revaluation of investment properties HK\$'000	Deductible depreciation of investment properties HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2017, as restated	2,110,529	107,466	3,378	2,221,373
Charge (credit) to profit or loss (Note 13)	299,441	30,604	(1,800)	328,245
Effect of foreign exchange difference	184,203	9,646	198	194,047
At 31 December 2017 and 1 January 2018, as restated	2,594,173	147,716	1,776	2,743,665
Charge to profit or loss (Note 13)	325,225	40,323	14,231	379,779
Effect of foreign exchange difference	(122,499)	(6,738)	(118)	(129,355)
At 31 December 2018	2,796,899	181,301	15,889	2,994,089

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35. Deferred Taxation (continued)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Deferred tax assets	6,199	6,528
Deferred tax liabilities	(2,994,089)	(2,743,665)
	(2,987,890)	(2,737,137)

At the end of the reporting period, the Group had estimated unused tax losses of HK\$1,647,800,000 (2017: HK\$1,307,200,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of HK\$26,112,000 (2017: HK\$26,112,000) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK\$1,621,700,000 (2017: HK\$1,281,100,000) due to the uncertainty of future profits streams. Included in unused tax losses are losses of HK\$700,221,000 (2017: HK\$672,520,000) that will expire in 2019 to 2023 (2017: 2018 to 2022).

36. Share Capital

	Number of shares	HK\$'000
Issued and fully paid ordinary shares		
At 1 January 2017, 31 December 2017 and 1 January 2018	338,765,987	498,548
Issue of shares upon conversion of convertible securities (Note)	349,111,097	1,588,410
At 31 December 2018	687,877,084	2,086,958

Note: On 26 July 2018, the Company received the conversion notices from 2 securities holders to exercise the conversion rights attached to the 2018 Convertible Securities for the principal amount of HK\$250,000,000 and HK\$730,000,000 respectively. An aggregate of 217,777,777 conversion shares at the price of HK\$4.5 per conversion share were allotted and issued on 26 July 2018.

On 31 October 2018, the Company received the conversion notices from 25 securities holders to exercise the conversion rights attached to the 2018 Convertible Securities for the aggregate principal amount of HK\$591,000,000. An aggregate of 131,333,320 conversion shares at the price of HK\$4.5 per conversion share were allotted and issued on 31 October 2018.

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37. Statement of Financial Position of the Company

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment		27	133
Investments in subsidiaries		914,053	914,053
Amounts due from subsidiaries		4,361,671	456,647
		5,275,751	1,370,833
Current assets			
Amounts due from subsidiaries		267,668	137,041
Trade and other receivables, deposits and prepayments		1,453	3,710
Cash and bank balances		2,462	9,370
		271,583	150,121
Current liabilities			
Trade and other payables and accruals		49,666	2,567
Amounts due to subsidiaries		575,016	766,496
Bank and other borrowings		111,234	–
Convertible bonds	30	380,363	77,167
Senior notes	31	100,226	93,297
Bonds	33	39,062	–
		1,255,567	939,527
Net current liabilities		(983,984)	(789,406)
Total assets less current liabilities		4,291,767	581,427
Non-current liabilities			
Bank and other borrowings		303,323	–
Convertible bonds	30	–	374,706
Convertible securities	32	56,444	–
Bonds	33	–	38,871
		359,767	413,577
Net assets		3,932,000	167,850
Capital and reserves			
Share capital	36	2,086,958	498,548
Reserves	38(b)	1,845,042	(330,698)
Total equity		3,932,000	167,850

Approved and authorised for issue by the board of directors on 29 March 2019 and signed on its behalf by:

Yang Longfei
Director

Zhang Yan
Director

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38. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity.

(b) Company

	Share option reserve HK\$'000	Convertible securities equity reserve HK\$'000	Exchange reserve HK\$'000	Revaluation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017	69,242	-	(12,207)	-	59,973	(327,421)	(210,413)
Loss for the year	-	-	-	-	-	(120,118)	(120,118)
Other comprehensive income for the year	-	-	(167)	-	-	-	(167)
At 31 December 2017 and 1 January 2018, as previously reported	69,242	-	(12,374)	-	59,973	(447,539)	(330,698)
Effect of changes in accounting policies	-	-	-	(14,996)	-	14,996	-
At 1 January 2018, as restated	69,242	-	(12,374)	(14,996)	59,973	(432,543)	(330,698)
Loss for the year	-	-	-	-	-	(150,975)	(150,975)
Other comprehensive income for the year	-	-	(107,903)	29,236	-	-	(78,667)
Issue of convertible securities upon combination of entities under common control (Notes 4 and 32)	-	3,961,106	-	-	-	-	3,961,106
Issue of shares upon conversion of convertible securities (Note 36)	-	(1,555,724)	-	-	-	-	(1,555,724)
At 31 December 2018	69,242	2,405,382	(120,277)	14,240	59,973	(583,518)	1,845,042

38. Reserves (continued)

(c) Nature and purpose of reserves of the Group and the Company

(i) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to certain directors and employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 5 to the consolidated financial statements.

(ii) Statutory reserve

The statutory reserve represents enterprise development and general reserve fund appropriated from the profit after taxation of the subsidiaries established in the PRC in accordance with applicable laws and regulations in the PRC.

(iii) Convertible securities equity reserve

The convertible securities equity reserve represents the fair value of the conversion option for the holders of convertible securities to convert the convertible securities into equity.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 5 to the consolidated financial statements.

(v) Merger reserve

The merger reserve represents the fair values of the liability component and equity component for 2018 Convertible Securities at the date of the issuance and the effect of business combination under common control.

(vi) Revaluation reserve

The revaluation reserve represents fair value loss attributable to changes in the credit risk of convertible bonds issued by the Group designated at FVTPL, which were transferred from the retained profits.

(vii) Other reserve

The other reserve represents fair value adjustment on amount due to a subsidiary at initial recognition.

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39. Perpetual Capital Instruments

Pursuant to the Perpetual Loan Agreements entered on 30 June 2018 between certain wholly-owned subsidiaries of the Company and the related companies controlled by Mr. Yang, the loans bear interest at 8%–10% per annum. Interest payments on the loans are paid annually on or before 31 December and can be deferred at the discretion of the Group. The related companies could not request for repayment of the principal and accrued interest save and except for when the Group elects to repay the principal and accrued interest at its sole discretion, or in the event of liquidation. The interest for the 6 months ended 31 December 2018 was waived.

Under the Perpetual Loan Agreements, no guarantee of any kind is required to be given by any member of the Group to either the related companies for the loans.

40. Share-Based Payment Transactions

(a) Share award scheme

On 8 August 2014, the Board resolved to adopt a share award scheme (the “Award Scheme”) to provide incentives to attract and retain selected employees for the benefits of the Group. The Award Scheme will remain in force for a period of 10 years commencing from 8 August 2014. Pursuant to the Award Scheme, existing ordinary shares in the capital of the Company will be purchased in the market by the trustee at the cost of the Company and held on trust for all or one or more of the employees until such ordinary shares in the capital of the Company are vested with the relevant selected employees in accordance with the rules of the Award Scheme. The Award Scheme shall be subject to the administration of the Board and the trustee in accordance with the Award Scheme and the trust deed. The number of ordinary shares in the capital of the Company to be awarded under the Award Scheme throughout its duration shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of ordinary shares in the capital of the Company which may be awarded to a selected employee under the Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

No ordinary share of the Company has been purchased and awarded pursuant to the Award Scheme since its adoption.

40. Share-Based Payment Transactions (continued)

(b) Share option scheme

On 22 August 2014, the Company adopted a share option scheme (the “Option Scheme”). The Option Scheme will remain in force for a period of 10 years commencing from 22 August 2014. The purpose of the Option Scheme is to provide the participants with an opportunity to obtain an equity interest in the Company, thus linking their interests with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

The subscription price shall be determined by the Board and shall be at least the higher of (i) the closing price of a share as stated in the daily quotation sheet issued by the Stock Exchange on the date of offer of the grant; and (ii) the average closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the five business days immediately preceding the date of offer of the grant. Without prior approval from the Company’s shareholders, (i) and total number of shares in respect of which options may be granted under the Option Scheme shall not exceed 10% of the shares of the Company in issue at any point in time; (ii) the maximum aggregate number of shares in respect of which options may be granted under the Option Scheme and any other share option schemes adopted by the Company exceeding, in aggregate, shall not exceed 30% of the shares in issue from time to time; (iii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period shall not exceed 1% of the shares of the Company in issue at any point in time. An option may be exercised at any time during a period as the Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

On 16 May 2016, a total of 33,876,590 share options were granted to a director and employees of the Group under the Share Option Scheme. The terms and conditions of the options granted are as follows:

	Number of share options	Vesting conditions	Contractual life of options	Expiry date
Options granted to a director	3,387,659	(i)	10 years	15 May 2026
Options granted to employees	30,488,931	(i)	10 years	15 May 2026
	<u>33,876,590</u>			

(i) Become exercisable from the date of grant to the tenth anniversary of the date of grant.

As at 31 December 2018, the number of outstanding share options is 33,876,590 (2017: 33,876,590), weighted average exercise price is HK\$4.11 (2017: HK\$4.11) and weighted average remaining contractual life is 7.4 years (2017: 8.4 years).

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40. Share-Based Payment Transactions (continued)**(b) Share option scheme (continued)**

The fair value of options granted by the Company was assessed using the binomial option pricing model. The following inputs were used:

Date of grant	16 May 2016
Share price on date of grant	HK\$4.11
Exercise price	HK\$4.11
Expected volatility (Note a)	57.76%
Expected life	10 years
Risk-free rate (Note b)	1.189%
Expected dividend yield	0%

Notes:

- (a) Expected volatility was determined based on the historic daily volatility of the Company's share prices (calculated based on the expected life of the share options).
- (b) Risk-free rate was determined based on the yields to maturity of respective Hong Kong Sovereign Curve.

The binomial option pricing model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the best assessment of the Directors on the valuer's estimation. Changes in variables and assumptions may result in changes in the fair value of the share options.

The estimated fair value of the options granted was HK\$69,242,000. In the year ended 31 December 2016, the Group recognised share-based payments of HK\$69,242,000 in profit or loss and the corresponding amount has been credited to share option reserve.

41. Changes in Liabilities Arising from Financing Activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Amounts due to related parties HK\$'000	Bank and other borrowings HK\$'000	Convertible bonds HK\$'000	Convertible securities HK\$'000	Senior notes HK\$'000	Bonds HK\$'000	Loans from related companies HK\$'000	Total liabilities from financing activities HK\$'000
At 1 January 2017, as restated	223,020	8,558,239	444,518	-	271,292	38,660	212,881	9,748,610
Changes in cash flows	284,559	2,540,933	(46,072)	-	(223,253)	(3,200)	16,798	2,569,765
Non-cash changes:								
Fair value changes	-	-	3,011	-	-	-	-	3,011
Interest recognised	-	-	50,416	-	45,258	3,411	34,205	133,290
Effect of foreign exchange difference	-	603,884	-	-	-	-	-	603,884
At 31 December 2017 and 1 January 2018, as restated	507,579	11,703,056	451,873	-	93,297	38,871	263,884	13,058,560
Changes in cash flows	166,667	(256,301)	(121,073)	-	(7,000)	(3,200)	-	(220,907)
Non-cash changes:								
Fair value changes	-	-	6,707	-	-	-	-	6,707
Interest recognised	-	694,438	42,856	6,148	13,929	3,391	45,358	806,120
Issue of convertible securities upon combination of entities under common control	-	-	-	87,951	-	-	-	87,951
Conversion	-	-	-	(32,686)	-	-	-	(32,686)
Effect of foreign exchange difference	-	(333,103)	-	(4,969)	-	-	166,983	(171,089)
Transfer to perpetual capital instruments	(674,246)	-	-	-	-	-	(476,225)	(1,150,471)
At 31 December 2018	-	11,808,090	380,363	56,444	100,226	39,062	-	12,384,185

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42. Contingent Liabilities

	2018 HK\$'000	2017 HK\$'000 (Restated)
Guarantees given to banks in favour of its customers in respect of mortgage loans provided by the banks	853,178	669,431
Financial guarantees given to banks in favour of its related parties	239,106	1,726,416
Financial guarantees given to banks in favour of its third parties	468,398	671,384
	1,560,682	3,067,231

The guarantees are given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the Directors, the fair values of the financial guarantee contracts are not significant as the possibility of default by the relevant purchasers is remote and, in case of default in payments, the net realisable value of the related properties can recover the repayment of the outstanding mortgage principals together with the accrued interest and penalty. Accordingly, no provision has been made in the consolidated financial statements for these guarantees.

The guarantees are secured by the Group's pledged bank deposits amounting to HK\$33,936,000 (2017: HK\$31,448,000).

The Group issued financial guarantees to banks in respect of banking facilities granted to related parties and third parties. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety. In the opinion of the Directors, the fair values of the financial guarantee contracts are not significant as the possibility of default by the relevant related parties is remote. Accordingly, no provision has been made in the consolidated financial statements for these guarantees.

43. Commitments

At the end of the reporting period, the Group had the following commitments:

	2018 HK\$'000	2017 HK\$'000 (Restated)
(a) Capital commitments		
Development costs for investment properties under construction	589,937	766,334
Acquisition of property, plant and equipment	–	1,266
	589,937	767,600
(b) Other commitment		
Development costs for properties under development for sale	791,938	519,039

(c) Lease commitments*The Group as lessor*

Property rental and management fee income in respect of the investment properties earned is HK\$735,788,000 (2017: HK\$620,784,000). The completed investment properties held have committed tenants for the next one to nineteen years (2017: one to nineteen years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments (i.e. fixed rental income) which fall due as follows:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Within 1 year	368,725	465,427
In the 2 to 5 years inclusive	553,234	820,857
Over 5 years	280,086	489,928
	1,202,045	1,776,212

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For the year ended 31 December 2018

43. Commitments (continued)

(c) Lease commitments (continued)

The Group as lessee

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

	2018 HK\$'000	2017 HK\$'000 (Restated)
Within 1 year	7,420	12,197
In the 2 to 5 years inclusive	3,562	12,328
	10,982	24,525

Operating lease payments represent rental payable by the Group for its office premises and director's quarter. Leases are negotiated and fixed for one to three years.

44. Related Party Transactions

In addition to those disclosed in other sections of the consolidated financial statements, the Group had the following transactions with related parties:

	2018 HK\$'000	2017 HK\$'000 (Restated)
Interest expense on loans from related companies	45,358	30,759
Interest expense paid to Mr. Yang	–	3,446
Cost of properties investment incurred by a related company	–	1,155
Net gain from property disposal to Mr. Yang Shao Ming (Note)	–	9,687
Property management fee expense paid to a related company	2,349	2,253
Consulting expenses paid to a related company	–	4,357

Note: Mr. Yang Shao Ming is the son of Mr. Yang.

Mr. Yang, together with China Lerthai and/or related companies controlled by him, have provided guarantees for the Group's convertible bonds, details of which are set out in note 30 to the consolidated financial statements. Mr. Yang, together with his spouse and companies controlled by him have provided guarantees and properties for the Group's bank and other borrowings, details of which are set out in note 29 to the consolidated financial statements. These related parties did not charge the Group for the guarantees provided and assets pledged to banks and a financial institution for the Group's credit facilities.

Remuneration paid and payable to the members of key management, who are the Directors during the year, are disclosed in note 15 to the consolidated financial statements.

Balances with related parties are set out in the consolidated statement of financial position and details of terms are set out in notes 24, 28, 34 and 39 to the consolidated financial statements.

45. Other Matters

During the year ended 31 December 2018 and 2017, the Group had disputes with some of the suppliers, as a result the Group received court orders with freezing the bank deposit amount to HK\$807,000,000 or sealing up the properties with equivalent amount (2017: restricted the Group from selling or pledging certain designated units amount to HK\$778,000,000 for a period of three years from date of the orders). As at the date of this report, the Group is still in the course of negotiation with the suppliers for settlement.

46. Events After the Reporting Period

On 23 October 2018, the Company entered into a sale and purchase agreement with Mr. Yang to sell the entire issued share capital in LT International Investment Holdings Limited (“LT International Investment”), and the sale loan (“Sale Loan”) represents all obligations, liabilities and debts owing or incurred by LT International Investment to the Company for a total consideration of HK\$247,369,000. LT International Investment, through its wholly-owned subsidiaries, LTG Platinum LLC and LTG South Hills LLC, was principally engaged in properties development and investment in the USA. The disposal was completed on 4 February 2019 and an aggregated principal amount of HK\$239,569,000 of the promissory note have been issued by Mr. Yang to the Company.

47. Subsidiaries

Particulars of the principal subsidiaries of the Company at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place/country of incorporation/ operation	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2018 %	2017 %	2018 %	2017 %	
Chi Cheung Management Services Limited	Hong Kong	HK\$2 Ordinary shares	50	50	50	50	Provision of management services
LERTHAI Asset Management Limited	Hong Kong	HK\$11,867,047 Ordinary shares	–	–	100	100	Provision of advisory and asset management services
勒泰股權投資基金管理(深圳)有限公司 Lerthai Equity Investment Fund Management (Shenzhen) Co., Ltd. ("SZ Lerthai")	The PRC	Registered capital of RMB30,000,000	–	–	100	–	Advisory on securities investment
LERTHAI Securities (Hong Kong) Limited	Hong Kong	HK\$11,636,000 Ordinary shares	–	–	100	100	Securities trading and investment
LERTHAI Futures (Hong Kong) Limited	Hong Kong	HK\$1 Ordinary shares	–	–	100	100	Futures and securities investment

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

47. Subsidiaries (continued)

Name of subsidiary	Place/country of incorporation/ operation	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2018 %	2017 %	2018 %	2017 %	
北京勒泰商業管理有限公司 Beijing Lerthai Commercial Management Co. Ltd ("BJ Lerthai")	The PRC	Registered capital of RMB550,000,000	–	–	100	100	Provision of management services
唐山勒泰房地產開發有限公司 Tangshan Lerthai Properties Development Co. Ltd.	The PRC	Registered capital of RMB250,000,000	–	–	100	100	Property development and investment
唐山勒泰購物廣場有限公司 Tangshan LT Shopping Mall Ltd.	The PRC	Registered capital of RMB250,000,000	–	–	100	100	Property development and investment
河北勒泰商業管理有限公司 Hebei Lerthai Commercial Management Co. Ltd. ("Hebei Lerthai")	The PRC	Registered capital of RMB3,000,000	–	–	100	100	Property investment
邯鄲勒泰城投房地產開發有限公司 Handan LT Municipal Investment Real Estate Development Co., Ltd.	The PRC	Registered capital of RMB98,980,000	–	–	100	100	Property development and investment
LT Commercial Management (International) Holdings Limited	The BVI	US\$1 Ordinary shares	100	100	–	–	Provision of property management services
唐山勒泰遠洋城企業管理有限公司 Tangshan Lerthai Oceancity Mall Corporate Management Company Limited ("Tangshan Corporate Management")	The PRC	Registered capital of RMB260,000,000	–	–	100	100	Property development and investment
唐山遠洋城購物廣場物業服務 有限公司 Tangshan Oceancity Mall Property Services Company Limited	The PRC	Registered capital of RMB50,000,000	–	–	100	100	Operation of shopping mall

47. Subsidiaries (continued)

Name of subsidiary	Place/country of incorporation/ operation	Paid up issued/ registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2018 %	2017 %	2018 %	2017 %	
唐山遠洋城置業服務有限公司 Tangshan Oceancity Mall Properties Services Company Limited ("Tangshan Properties Services")	The PRC	Registered capital of RMB1,000,000	–	–	100	–	Property investment
Skyjoy Assets Management Limited	The BVI	US\$6,399 Ordinary shares	–	–	100	100	Investment holding
石家莊勒泰房地產開發有限公司 Shijiazhuang Lerthai Real Estate Development Company Limited	The PRC	Registered capital of RMB420,000,000	–	–	100	100	Property development and investment
石家莊勒泰商業管理有限公司 Shijiazhuang Lerthai Commercial Management Company Limited	The PRC	Registered capital of RMB1,000,000	–	–	100	100	Property investment
LT Design Studio	The USA	US\$1,000 Shares common stock	–	100	100	–	Project design
LTG South Hills, LLC	The USA	Note	–	–	100	100	Property investment
LTG Platinum, LLC	The USA	Note	–	–	100	100	Property development

Note: According to the operating agreements, members may be obligated to make any additional contribution to the capital if management deemed necessary and approved by shareholders holding 70% of equity interests.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

47. Subsidiaries (continued)

SZ Lerthai, BJ Lerthai, Tangshan Corporate Management and SJZ Property Development are wholly foreign-owned enterprises.

TS Lerthai Development, Handan LT, TS Lerthai Shopping, Hebei Lerthai, Handan LT Municipal, Tangshan Property Management, Tangshan Properties Services and SJZ Commercial Management are wholly domestic owned enterprises.

None of the subsidiaries had any debt securities subsisting at 31 December 2018 and 31 December 2017 or at any time during the years.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2018	2017 (Restated)
Investment holding	Cayman Islands	2	2
	The BVI	8	8
	Hong Kong	7	7
	Canada	2	2
		19	19
Inactive	The BVI	4	4
	Hong Kong	5	5
	The USA	–	1
		9	10

48. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019.

Five Year Financial Summary

	For the year ended 31 December				
	2018 HK\$'000	2017 HK\$'000 (Restated)	2016 HK\$'000 (Note b)	2015 HK\$'000 (Note b)	2014 HK\$'000 (Note c)
RESULTS					
Revenue	909,919	2,043,221	12,560	12,898	4,726
Profit (loss) before taxation	1,117,160	995,988	(217,546)	(39,255)	(18,456)
Income tax (expense) credit	(407,483)	(410,891)	(22,700)	742	(20,570)
Profit (loss) for the year	709,677	585,097	(240,246)	(38,513)	(39,026)
Profit (loss) for the year attributable to owners of the Company from continuing operation	709,677	585,097	(240,246)	(41,497)	(41,770)
from discontinued operation	–	–	–	2,984	2,744
	709,677	585,097	(240,246)	(38,513)	(39,026)
Earnings (loss) per share (HK dollars) (Note a)					
– Basic	1.56	1.73	(0.71)	(0.11)	(0.12)
– Diluted	0.74	1.62	–	–	–
As at 31 December					
	2018 HK\$'000	2017 HK\$'000 (Restated)	2016 HK\$'000 (Note b)	2015 HK\$'000 (Note b)	2014 HK\$'000 (Note c)
ASSETS AND LIABILITIES					
Total assets	26,675,345	27,737,106	7,181,727	3,208,426	2,005,918
Total liabilities	(20,583,108)	(21,554,218)	(6,960,771)	(2,770,017)	(1,492,415)
Net assets	6,092,237	6,182,888	220,956	438,409	513,503
Net asset value per share (HK\$)	8.86	18.25	0.65	1.29	1.52
Number of shares issued	687,877,084	338,765,987	338,765,987	338,765,987	338,765,987

Notes:

- The calculation of basic and diluted earnings per share is based on the profit attributable to owners of the Company for the years and on the weighted average number of shares in issue during the relevant years.
- The comparative amounts for the three years ended 31 December 2016, 2015 and 2014 have not been restated for the effects of merger accounting, resulting from the completion of acquisition of Lerthai International and Greatpro on 20 April 2018. For detailed financial information for the years ended 31 December 2016 and 2015 of the Lerthai International group and Greatpro group, please refer to the circular of the Company dated 28 March 2018.
- For financial information for the year ended 31 December 2014 of Lerthai International group and Greatpro group, the Company is lack of information. In additions, in the opinion of the Directors, the preparation of such information is time consuming and the presentation of such information would not provide any additional useful information to the users of the consolidated financial statements.

Investment Properties and Properties under Development for Sale

Particulars of investment properties and properties under development for sale at 31 December 2018

Location	Type	Lease term	Effective % held	Gross floor area	Participated completion
Completed properties held for investment					
Lerthai South Hills Plaza 1410-1432 South Azusa Avenue City of West Covina California The USA	Shopping mall	Freehold	100%	348,000 sq. ft.	N/A
Tangshan Lerthai City – Phase 1 298 Beixin West Road Lubei District Tangshan City Hebei Province The PRC	Commercial, office and hotel	Long-term	100%	3,160,000 sq. ft.	N/A
Retail Podium of Shijiazhuang Lerthai Centre No. 39 Zhongshan East Road Chang'an District Shijiazhuang City Hebei Province The PRC	Shopping mall, commercial and carpark	Medium	100%	4,093,000 sq. ft.	N/A
Shijiazhuang Lerthai Centre Towers 1 to 4 No. 39 Zhongshan East Road Chang'an District Shijiazhuang City Hebei Province The PRC	Office, apartment and hotel	Medium	100%	1,415,000 sq. ft.	N/A
Tangshan Pelagic Mall (excluding Level 7) and two land parcels No. 128 Jianshe North Road Lubei District Tangshan City Hebei Province The PRC	Shopping mall, office and carpark	Medium	100%	1,220,000 sq. ft.	N/A
Properties under construction for investment and sale					
Tangshan Lerthai City – Phase 2 298 Beixin West Road Lubei District Tangshan City Hebei Province The PRC	Residential, commercial, office and hotel	Long-term	100%	3,764,000 sq. ft.	2019
North of Renmin Road, east of Lingxide Street, south of Congtai Road and west of Congtai Road Handan City Hebei Province The PRC	Residential and commercial	Long-term	100%	3,335,000 sq.ft	2019
North of Qin River, east of Chengtneishong Street and south of Qingnian Road Handan City Hebei Province The PRC	Residential and commercial	Long-term	100%	3,307,000 sq. ft.	2019



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