北京建設 BPHL

BEIJING PROPERTIES (HOLDINGS) LTD

(incorporated in Bermuda with limited liability)

Stock Code: 925

2018 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. QIAN Xu *(Chairman)*
Mr. SIU Kin Wai *(Chief Executive Officer)*
Mr. ZHAO Jiansuo
Mr. LI Shuping
Mr. DONG Qilin
Mr. LI Changfeng
Mr. CHENG Ching Fu *(Chief Financial Officer)*
Mr. YU Luning
Mr. ANG Renyi
Mr. NG Kin Nam (appointed on 10 December 2018)
Mr. HU Yebi (resigned on 6 November 2018)

Independent Non-Executive Directors

Mr. GOH Gen Cheung
Mr. ZHU Wuxiang
Mr. James CHAN
Mr. SONG Lishui
Mr. XIE Ming

AUDIT COMMITTEE

Mr. GOH Gen Cheung *(Chairman)*
Mr. ZHU Wuxiang
Mr. James CHAN
Mr. SONG Lishui
Mr. XIE Ming

INVESTMENT AND RISK MANAGEMENT COMMITTEE

Mr. QIAN Xu *(Chairman)*
(appointed on 3 September 2018)
Mr. SIU Kin Wai *(Vice Chairman)*
(appointed on 3 September 2018)
Mr. DONG Qilin (appointed on 3 September 2018)
Mr. LI Changfeng (appointed on 3 September 2018)
Mr. CHENG Ching Fu (appointed on 3 September 2018)
Mr. YU Luning (resigned on 3 September 2018)
Mr. ZHU Wuxiang (resigned on 3 September 2018)
Mr. ANG Renyi (resigned on 3 September 2018)
Mr. HU Yebi (resigned on 6 November 2018)

NOMINATION COMMITTEE

Mr. James CHAN *(Chairman)*
Mr. GOH Gen Cheung
Mr. QIAN Xu
Mr. YU Luning
Mr. SONG Lishui
Mr. XIE Ming

REMUNERATION COMMITTEE

Mr. GOH Gen Cheung *(Chairman)*
Mr. YU Luning
Mr. James CHAN
Mr. SONG Lishui
Mr. XIE Ming

COMPANY SECRETARY

Mr. CHENG Ching Fu

STOCK CODE

925

AUTHORIZED REPRESENTATIVES

Mr. QIAN Xu
Mr. SIU Kin Wai

REGISTERED OFFICE

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2 Church Street
Hamilton HM 11
Bermuda

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Clarendon House, 2 Church Street
Hamilton, HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
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183 Queen's Road East
Hong Kong

AUDITORS

Ernst & Young

WEBSITE

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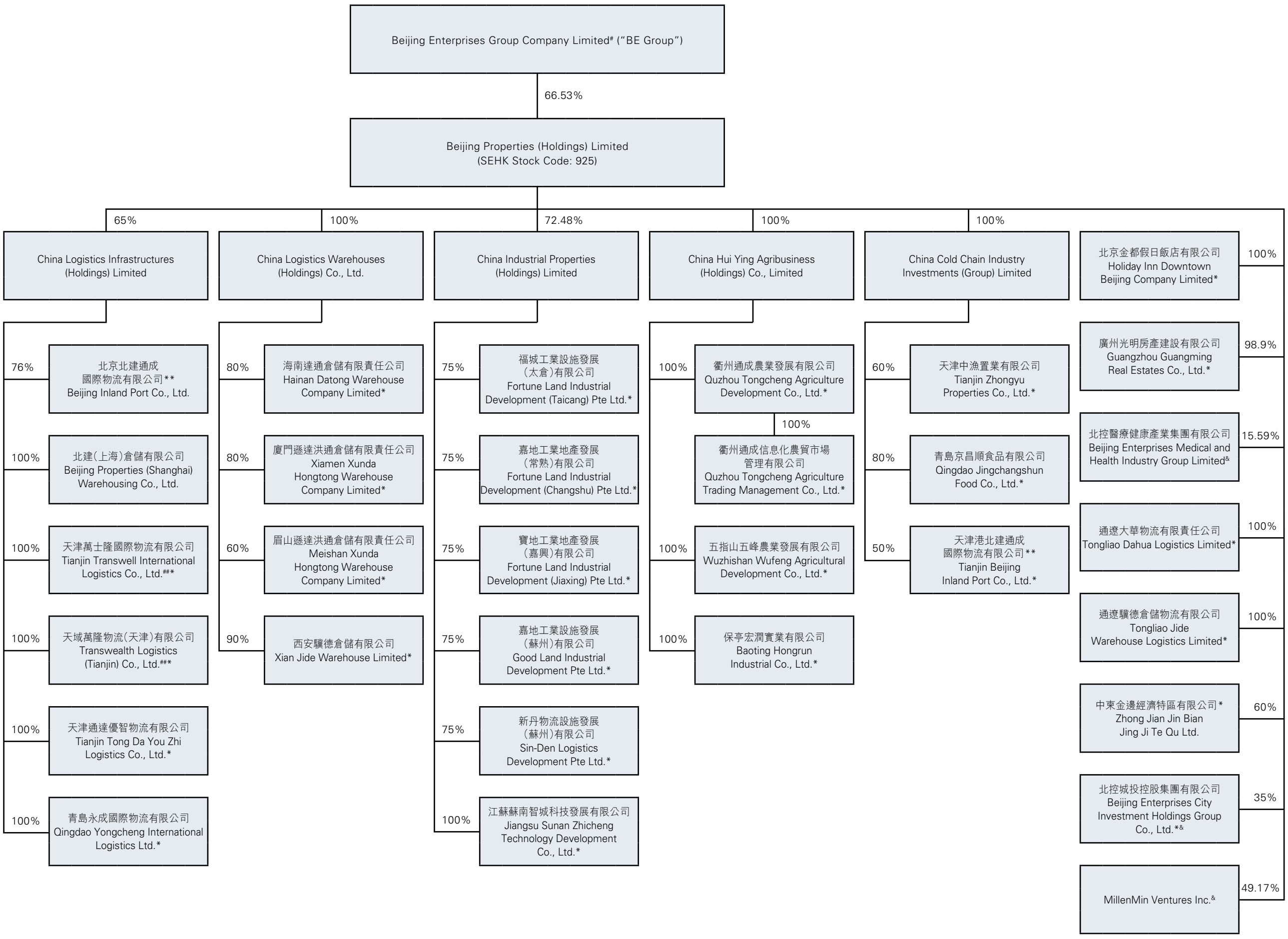
PRINCIPAL BANKERS

China CITIC Bank International Ltd
Shanghai Pudong Development Bank Co., Ltd
Bank of China Limited
China CITIC Bank International (China) Limited
Taipei Fubon Commercial Bank Co. Ltd
Industrial and Commercial Bank of China Limited

GROUP STRUCTURE

As at 22 March 2019



BE Group indirect held 66.53% of the issued share capital of Beijing Properties (Holdings) Limited (the "Company") through its wholly-owned subsidiaries

* *For identification purpose only*

** *Joint venture*

& *Associate*

Out of 100% equity interest, 30% equity interests are held directly by the Company and 70% equity interest are held by China Logistics Infrastructures (Holdings) Limited

FINANCIAL HIGHLIGHTS

	2018	2017
	HK$'000	HK$'000
Revenue	**480,705**	335,025
Profit before tax	**316,529**	298,687
Profit for the year	**100,200**	295,584
Profit/(loss) attributable to shareholders of the Company	**(23,677)**	300,916
Earnings/(loss) per share		
– basic (HK dollars)	**(0.34 cent)**	4.41 cents
– diluted (HK dollars)	**(0.34 cent)**	4.41 cents

	2018	2017
	HK$'000	HK$'000
Total asset	**18,321,421**	17,860,702
Equity attributable to shareholders of the Company	**3,930,578**	4,419,323
Total equity	**6,570,230**	6,792,639
Cash and bank balances	**1,820,360**	1,728,714
Net gearing ratio (times)	**90.34%**	88.02%

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors, I am pleased to report the annual results of Beijing Properties (Holdings) Limited ("BPHL" or the "Group") for 2018.

2018 was a turbulent year. Since the outbreak of the U.S.-China Trade War, the Chinese economy has experienced a continuous downturn, which directly resulted in turmoils in the financial market. The most direct impact for us was the significant increase in financial costs. In August 2018, the Group issued US Dollar bonds, and its interest rate increased to 9.0%, from 4.375% in 2017 during when the bonds are issued. The increased financial costs directly affected the operating profits of our projects.

Nevertheless, the Group's business model can withstand challenges. In the years 2019 to 2020, the Group ended its first cycle since the development of its business. The cultivation of several projects has been completed and they are now available for sale. Currently, the Group is proactively making arrangements to sell its projects, so as to realise the benign cycle of its capital flow, to realise decreased debts and to re-invest in new projects, in order to build a solid foundation for the creation of sustainable profits in the future.

Over the years, the Group's business model was not fully comprehended by the market, hence market values have not been able to reflect the Group's net (or higher) asset value for a long period of time. Yet, the Group's operations remain unchanged. As a professional property developer, we develop and cultivate quality projects, and ultimately realise their overall profits through sales. From now on, the Group will step up its efforts in explaining our entire business model to the market to allow investors to fully understand our operations and our profit growth points in the future, so that our market values can be properly reflected.

Thank you!

Qian Xu
Chairman

22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2018, the Group recorded a consolidated loss attributable to the shareholders of the Company of approximately HK$23.68 million, as compared to the consolidated profit attributable to the shareholders of the Company of approximately HK$300.92 million recorded for the year ended 31 December 2017.

BUSINESS REVIEW

The Group is the only Hong Kong-listed company engaged in property related business under Beijing Enterprises Group Company Limited ("BE Group"), the ultimate controlling shareholder of the Group. The Group was previously engaged in specific property business such as the development of and investment in logistics property, industrial property, cold chain logistics warehouse and commercial property. As a developer, the Group mainly generates profits through the disposal of its developed projects with cultivated values. The realized capital will be further invested in new property projects to complete the benign cycle of the whole capital chain.

In addition, most of the Group's revenue had been derived from rental income for some time in the past, which posed risks to the operation and cash flows of the Group. As such, since the second half of 2017, the Group had been committed to establishing a cold chain business with self-owned cold warehouse as the core and then expanding to the relevant upstream and downstream industries for cold warehouses. Imported meat and aquatic products, which have high values and the fastest growth rate in China, are the core of the cold chain business of the Group, the scope of business of which includes international trade, financial services, warehousing, light processing and distribution. Following realization, the Group's revenue will be further diversified, including interest income, inbound and outbound service income, processing income, international trade agency income, etc, which will further expand its sources of profit and create returns for shareholders. After prudent preparation, the international trading business, pioneer of the cold chain operation as a whole, will officially commence in the second quarter of 2019. At the same time, with the increase in the number of completed projects within the industrial property segment, the Group will officially exit from certain projects in the second half of 2019, to recover profits on project development, and to further minimize its debts and enhance its ability in reinvestment.

Currently, the Group's progress will be explained in the analysis of various business segments below.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

1) High-end and Modern General Warehouses

The Group has been establishing a network of modern warehouses in prime locations across China to provide the infrastructure needed by e-commerce and import and export trade of the nation. These locations include Beijing, Shanghai, Tianjin, Xiamen, Chengdu, Haikou, Tongliao, Xi'an, Taicang and so on. Their particulars are as follows:

Location of warehouse	Notes	Planned and owned area (sq.m)	Operating rentable area (sq.m)	Average occupancy rate during the year ended 31 December 2018 (%)	2017 (%)
Beijing Majuqiao*	(a)	591,768	236,512	**97.36**	–
Shanghai, Pudong District	(b)	211,554	211,554	**76.30**	69.34
Tianjin (Tianjin Airport Zone of Tianjin Free Trade Zone)	(c)	58,617	58,617	**96.06**	96.12
Tianjin (Tianjin Port Zone of Tianjin Free Trade Zone)	(d)	16,083	16,083	**100**	100
Xiamen, Tong'an District	(e)	92,450	92,450	**95.72**	87.67
Meishan, Dongpo District	(f)	97,810	97,810	**58.75**	36.46
Hainan, Chengmai District	(g)	48,870	48,870	**79.30**	77.83
Tongliao, Ke'erqin District	(h)	30,208	30,208	**74.24**	69.88
Jiangsu, Taicang City	(i)	129,887	–	**–**	–
Xi'an, Jinghe District	(j)	165,000	–	**–**	–
		1,442,247	792,104		

* A joint venture of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

1) High-end and Modern General Warehouses (continued)

(a) Majuqiao Logistics Park is the largest investment project to be developed and operated by Beijing Inland Port Co., Ltd. ("BIPL") and the Group. It will become one of the largest comprehensive logistics parks in northern China upon completion. The whole project will be completed in five phases. BIPL obtained the land lots for Phase I and Phase II of this project on 3 November 2015. Construction works of Phase I started on 19 September 2016, while that of land lots I, and II & III of Phase II started on 28 February 2017 and in April 2018, respectively. The land lot for Phase I is completed and is delivered to customers for use in September 2018, with occupancy rates reaching 96.85%. The Land lot I of Phase II also commenced operation in November in the same year and achieved full occupancy. The main structures of land lots II & III of Phase II have been completed and construction works are expected to complete in 2019. Furthermore, the Group obtained the land lot for Phase III on 12 May 2017 at the minimum bidding price of RMB620 million. Also obtaining the Construction Registration Certificate in late 2018, the Group has satisfied all construction requirements and expects to start construction works in the second quarter of 2019. The Group has also expedited the preliminary application process of Phases IV and V, striving to obtain land by 2019. Upon the completion of the whole project, it will have a total rentable area of approximately 591,768 sq.m., which includes a rentable area of approximately 503,693 sq.m. for warehouse and a rentable area of approximately 88,075 sq.m. for commercial use.

(b) Despite the unstable performance of China's export market as a result of the US-China trade tensions in 2018 which impacted traditional international trade, the Shanghai warehouse, with the help of the strong momentum brought about by the rapid development of the cross-border e-commerce industry, has increased its occupancy rates by actively retaining existing customers, strengthening its strategic cooperation with local park management and making substantial efforts to launch new businesses and expand its customer source. In the 2017 period, its average occupancy rate was approximately 69.34%, while the average occupancy rate in the 2018 period increased to 76.30%.

(c) The warehouses in Tianjin (Tianjin Airport Zone) are still the sole warehouses supervised by Customs. The unique location allows the warehouses to maintain a stable occupancy rate. Among them, Phase I and II of Transwealth Logistics was fully rented by SF Express, with the occupancy rate maintained at 100% throughout the year; the occupancy rate of the warehouse area of WSL Logistics also reached 88.04% in the 2018 period.

(d) The warehouse is located in the Tianjin Port Bonded Zone. The project has a total land area of 30,003 sq.m. and a total gross floor area of 16,083 sq.m. Currently the project has been fully leased to Kerry EAS Logistics Limited Tianjin Branch with a stable growth of income.

(e) The Group is operating 5 warehouses in Xiamen City, Fujian Province with a total rentable area of 92,450 sq.m., which has been leased to three major players in the e-commerce industry of China and has achieved full occupancy since May 2018.

(f) The Group is operating 4 warehouses in Meishan City, Sichuan Province with a total rentable area of approximately 97,810 sq.m. The occupancy rate was significantly increased from 26.45% in early 2018 to 87% in December 2018. The improvement in the occupancy rate was mainly because the Group entered into a lease agreement for 52,361 sq.m. with an enterprise engaged in the research and development and manufacturing of high-end LCD monitors in April 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

1) High-end and Modern General Warehouses (continued)

(g) The Group is operating 2 warehouses in Chengmai County, Haikou City of Hainan Province with a total rentable area of 48,870 sq.m. The average occupancy rate was approximately 79.30% in the 2018 period, and has achieved full occupancy in the first quarter of 2019.

(h) The Group completed the acquisition on 31 May 2017. Due to the cancellation of the national temporary grain storage policy, the occupancy rates of grain warehouses for the project have been continuously declining since the second half of 2018. Currently, a significant area of the grain warehouse in Tongliao is vacant. Since supply exceeds demand in the warehouse leasing market in general, the development of warehouses in the logistics park has been slowed down. Besides the Group's continued efforts to proactively lease out the existing warehouses, it is gaining an understanding of the Tongliao market in time. When appropriate business partners have been sought, there exists a possibility that the Group will develop the land lots for other projects.

(i) The land is planned to construct approximately 129,887 sq.m. of double-layer high-end modern general warehouses. The acquisition of the project land was completed in September 2017, and the construction was commenced in late 2018 and is expected to be completed in June 2020. The Group believes that as the metropolitan area of Shanghai continues to grow, certain industries inevitably have to relocate. With its prime location, it is believed that this project will be leased out and will generate income and profit as soon as its development is completed in the future.

(j) On 14 July 2017, the Group entered into a joint venture agreement with an independent third party to establish a subsidiary in Xi'an which is owned as to 90% by the Group and plans to construct 165,000 sq.m. of high-end modern general warehouses. We originally expected to obtain the relevant project land in September 2017, commence construction by mid-2018, and complete and deliver the project to the tenants by mid-2019. However, due to the change in local government officers and the relevant planning, the land had yet to be listed for sale. Currently, the construction of the project has to be re-planned to satisfy new requirements from the local government, and the land is expected to be obtained by the first half of 2019.

As mentioned above, the Group's business model is mainly to establish a benign capital chain cycle and to realize sustainable business development. As a result, the Group exited from its logistics assets by way of establishing a limited partnership private equity fund (the "Fund"). On 3 August 2018, the Group and 普洛斯投資(上海)有限公司 ("GLP Shanghai") entered into a framework agreement. Pursuant to the agreement, the Group and GLP Shanghai shall establish a fund outside the PRC. The Group will participate as a limited partner and a general partner of the Fund. Upon establishment, the Fund will acquire certain logistics properties from the Group. The Fund will serve as a professional investment platform focusing on logistics properties and will acquire further logistics property projects held by the Group after they become more mature. Leveraging on its own strengths, the Group will continue to invest and develop new logistics property. The disposal of current logistics properties to the Fund is to realize cash and generate profit from development and asset appreciation in properties. The proceeds are used to fund new property investment and development.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

2) Cold Chain Logistics Warehouses

Another development focus of the Group is to establish nationwide cold chain logistics facilities. The Group will further expand its cold chain business connecting to upstream and downstream of the cold chain. The cold chain business to be developed by the Group represents mainly imported meat and aquatic products, which have high values. With the rise of China's middle-class society, the demand for quality food is growing rapidly every year. However, due to the lack of reform in the industry in China for some time in the past, the cold chain industry remained subject to large investment and low informatization, and the cold chain industry recorded a slow growth. No leading enterprises have developed in the industry. This presents the Group with a great opportunity for development. The Group's cold chain business is mainly divided into four business segments, namely cold storage and processing business, international and domestic trade business, financial and equity investment business and third party cold chain logistics distribution business. Its strategic objective is to establish the best comprehensive cold chain industry service platform in the PRC and a complete cold chain industry ecosystem, to save costs and increase revenue by making full use of technologies and data while promoting physical business, to maintain full management of and control over the cargo right, information right, document right, capital right and disposal right in the whole chain, and to eliminate operational risks.

To improve the business function in general, trade companies and technology companies have been established in 2018, which have formally commenced business. Details of the status of the existing cold storage business are as follows:

Location of warehouse	Notes	Planned and owned volume (ton)	Operating rentable volume (ton)	Average occupancy rate for the year ended 31 December 2018 (%)	2017 (%)
Tianjin, Hangu District	(a)	45,000	45,000	**82.76**	63.14
Qingdao, Chengyang District	(b)	8,000	8,000	**42.78**	67.86
Tianjin Port Zone of Tianjin Free Trade Zone	(c)	45,000	–	**–**	–
		98,000	53,000		

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

2) Cold Chain Logistics Warehouses (continued)

(a) Tianjin cold chain warehouse is positioned to serve as a cold chain logistics centre and a processing and distribution hub of aquatic products in northern China. Phase I has an area of approximately 31,301 sq.m., representing a carrying storage capacity of approximately 45,000 tons. There is spare land of approximately 54,337 sq.m. available for the development of Phase II in the future. The relevant preliminary planning and design work is in progress. By making comprehensive efforts into recruiting tenants in 2018, the Group has continued to expand the warehouse's popularity. The total number of customers amounted to 239, and the cold storage volume has reached full occupancy since March. Once the cold chain business was ready, the Tianjin cold chain warehouse worked hard on expanding derivative business in relation to warehousing, and explored new business models by communicating with JD Finance and other customers in the financial field. The project meets international trade quality standards and possesses the precedent conditions for the commencement of international trade business.

(b) Qingdao cold chain warehouse is principally engaged in the operation of cold logistics storage facilities in Chengyang district of Qingdao, China. It currently owns a parcel of land of approximately 15,352 sq.m. with cold warehouses of approximately 6,786 sq.m., which have a carrying storage capacity of approximately 8,000 tons. The decrease in the storage rate in 2018 was due to the significant seasonal impact towards inbound and outbound carrying storage capacities. Once the cold chain business is ready, Qingdao cold chain warehouse will commence its international trade cold storage service to diversify its customer base, and to expand and integrate new business models of online fresh food shops, such that its business risks can be mitigated and its carrying storage capacity can be increased.

(c) Tianjin Port project is owned by a joint venture established by the Group and Tianjin Port Group, each holding its 50% equity interest. The land has been obtained in February 2017, and various tasks before the commencement of construction works have been launched simultaneously. Construction works are planned to start in August 2018. However, Tianjin Port Group requested to change the land location due to their adjustment to its strategic planning. Currently it is communicating with government authorities about the land exchange. The land area, size, and shape of the new and old land lots are similar to the planned constructions of warehouses of approximately 50,000 sq.m., an office building of 6,000 sq.m. and a yard of 50,000 sq.m. By the end of 2018, the Group has entered into a letter of intention with two tenants with firm intentions of renting warehouses with an area of 50,000 sq.m.

As Phase II is still awaiting development, cold chain warehouses located in Tianjin and Qingdao are classified by the Group as projects under development and have yet to contribute profit. The Group believes that with the development of the overall cold chain business and the completion of the Phase II project, they will bring satisfactory returns to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

3) Industrial Properties

As the metropolitan area of Shanghai continues to grow, certain existing high-end industries in the region inevitably have to be relocated. Meanwhile, high-end European and American enterprises remain eager to set up production bases in China. As a result, high-end industrial properties are in demand in the Yangtze River Delta. Therefore, the Group commenced the industrial properties business at the end of 2016 and formed several non-wholly owned subsidiaries (held by the Group as to 75%) with SSinolog (China) Holding I Pte. Ltd. from Singapore to develop high-end factories for lease in Taicang, Changshu, Suzhou and Jiaxing in the Jiangsu province. Details of these projects are as follows:

Location of warehouse	Notes	Planned and owned area (sq.m)	Operating rentable area (sq.m)	Average occupancy rate for the year ended 31 December 2018 (%)	2017 (%)
Zhejiang, Taicang City	(a)	66,015	66,015	**100**	22.67
Jiangsu, Suzhou City	(b)	61,714	–	**–**	–
Zhejiang, Jiaxing City	(c)	93,431	–	**–**	–
Jiangsu, Changshu City	(d)	168,647	–	**–**	–
Jiangsu, Changzhou City	(e)	459,197	–	**–**	–
		849,004	66,015		

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

3) Industrial Properties (continued)

(a) The project was completed in July 2017 and its real estate ownership certificate was obtained in December 2017. Its rentable area has been fully leased since January 2018. Many large European and U.S. smart manufacturing enterprises and high-end manufacturing enterprises are concentrated in the area where the project is located. The project has long-term leases with steady rental growth.

(b) The land use right certificate for the project was obtained in May 2017, and its construction commenced in December 2018 and is expected to be completed in December 2019. The project is at a prime location with great accessibility and enjoys local government funds supporting industrial development.

(c) The land use right certificate for the project was obtained in April 2017. It passed fire safety tests in late 2018 and is expected to be completed in April 2019. The project is in a location adjacent to Shanghai and has great accessibility. Local government provides strong support to the manufacturing industry, with industry support funds and policies in place. The concentration of European and U.S. high-end manufacturing enterprises has generated economies of scale. Standard, high-end and customised plants have been constructed.

(d) The land use right certificate for the project was obtained in June 2016, and the project is under construction, which is expected to be completed in April 2019. The project is at a prime location with well-planned facilities in the surrounding area. It has good accessibility and is in proximity to the expressway network, with extensive local high-quality labour resources and ancillary facilities.

(e) The Group also invested in an industrial park headquarters project located in Tianning Economic Development Zone in Changzhou City, Jiangsu Province in January 2018. The project is planned to have a total land area of approximately 200 mu and a total gross floor area of approximately 459,197 sq.m. With a total investment amount of approximately RMB2 billion, it will be developed in two phases. Construction of Phase I is expected to commence in May 2019 and be completed around the third quarter of 2021, and construction of Phase II is expected to commence in the third quarter of 2019 and be completed around late 2021. A part of the floor area will be sold to speed up the cash recovery. The project will be the first internet economic platform cluster in Tianning District, Changzhou and will facilitate the development of emerging industries including smart equipment, smart home, sports health equipment and educational equipment through innovative designs and smart research and development. The project comprises commercial, residential, leisure and other urban functions, introduces green smart solutions, and is an ecological smart park reflecting industrial integration.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

4) Belt & Road Initiative

The Sino-Cambodian SEZ project is located in Kampong Chhnang Province, which is 65 kilometres northwest of Phnom Penh, the capital of Cambodia. It is linked to Phnom Penh by Highway 5. This project has a planned target site area of 30,000,000 sq.m. Certificate for approximately 14,868,696 sq.m. of the land has been obtained. In December 2018, the project and an independent third party entered into a land acquisition agreement to further acquire land with an area of 1,130,208 sq.m. The land delivery is pending approval by government authorities. After the completion of the acquisition, land held by the project will further increase to 15,998,904 sq.m. Currently, the compliance control design and certain municipal designs of the project have been completed. Benefiting from preferential taxation, import and export policies offered by the Cambodian government, the Sino-Cambodian SEZ will be developed into a special zone featuring manufacturing and processing, logistics and commerce, technology and culture, education and residential facilities. The project is positioned to serve Chinese enterprises under the "Belt and Road Initiative" and provide Chinese merchants with a clustered integrated industrial platform. In 2017, the project was filed with the Ministry of Commerce of the PRC and included in the list of projects under the "Belt and Road Initiative" by the National Development and Reform Commission. The custom, commerce, labour, taxation and other departments of the Cambodian government will set up offices to offer one-stop services to enterprises within the special zone. The Group mainly conducts primary land development in special zones and sells the same to Chinese enterprises upon completion of land development to realize the returns of land transfer. It also provides management services in industrial parks to receive sustainable management fee income.

The Cambodian government is currently rolling out a number of policies to attract investments from foreign enterprises. Such policies aim at establishing a free and open economic system by offering equal treatment to foreign and domestic investors. In recent years, the Cambodian economy has been expanding rapidly at a GDP growth rate of 7% or above for five consecutive years. With an average age of less than 30, the population of Cambodia offers abundant manpower.

The Group believes that thanks to the stable and amicable long-term relation between China and Cambodia, as well as its effective control on land acquisition costs, the sale of such land will create fruitful returns in the future. Currently the overall project planning has been completed. As at late 2018, the Sino-Cambodian SEZ has completed the delivery of the land to an enterprise, its first tenant. It is expected that more enterprises of different types will invest in the land in 2019. The whole project will be developed in phases, and fund for development will be obtained by profits on land sales and borrowings from financial institutions, and it is not expected to bring too much financial pressure to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

5) Specialised Wholesale Market

With the approval of Quzhou government authorities, Quzhou Tongcheng Agriculture Development Co., Ltd. ("Quzhou Tongcheng") has been approved to establish a modern agricultural wholesale market project, including an agricultural exchange zone, which may be utilised as the new location for the existing exchange centre in the city following its relocation, as well as ancillary commercial facilities. The existing trading centre was granted the status of first class wholesaling centre for agricultural products, serving a population of approximately 30 million people. The Quzhou agricultural shopping mall project will be constructed and developed in two phases. Phase I has a floor area of 41,282 sq.m. and was put into operation in August 2015. Phase II consists of three lots. Lots I and II have a total floor area of 156,115 sq.m., and were put into operation in November 2017. Lot III is at the stage of design drawing optimization. According to the preliminary design, the rentable and sellable area is expected to be approximately 103,382 sq.m., including a planned warehouse with an area of approximately 11,987 sq.m. and other planned ancillary commercial facilities. As at 31 December 2018, the market had a rentable area of 171,629 sq.m., including an agricultural product wholesale trading zone of 69,142 sq.m., with an occupancy rate of 76.05%; and a comprehensive trading zone of 22,869 sq.m., with an occupancy rate of 74.97%. The average market rent (including tax) is RMB245/year/sq.m. An area of 4,972 sq.m. is used for cold storage. The designed carrying storage capacity is 1,198 tonnes.

6) Commercial Properties

(a) Guangzhou Guangming Property Construction Co., Ltd. ("Guangzhou Guangming") owns 99% interest in Metro Mall. The mall is situated at the Beijing Road shopping district, Yuexiu District of Guangzhou City of China. Metro Mall has a gross floor area of approximately 59,000 sq.m., and is an 11-storey shopping centre providing dining, entertainment, shopping and cultural experience to customers. The average occupancy rate is maintained at approximately 85.80% for the 2018 Period.

(b) Holiday Inn Downtown Beijing Company Limited ("BJ Holiday Inn") is a wholly-owned subsidiary of the Group, and is the owner of a four-star business and leisure hotel providing 333 elegantly decorated rooms to business travellers in North Lishi Road (near Financial Street, Xicheng District), Beijing. The average occupancy rate was approximately 82.92% for the 2018 Period. The hotel is a cash-generating asset which can sustain its own operation and distribute a stable dividend to the Company when needed.

The Group's two commercial property projects are both located in prime commercial locations and were previously acquired at a lower price. As commercial property business is not a core business of the Group, the Group will sell these two projects if appropriate prices arise.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

7) **Beijing Enterprises City Investment Holdings Group Co., Ltd. ("BE City Investment"):** On 13 November 2017, the Group and strategic investors and its management established BE City Investment, 35% equity interest of which is held by the Group as the single largest shareholder. BE City Investment is a mixed investment holding group dominated by state-owned capital. With the core objective of investing in and consolidation of urban land resources and improving their values, BE City Investment is positioned to invest in and operate new urban infrastructures, introduce basic industries, build a new industry-city integration investment operator and an integrated urban public service provider to provide urban public goods and public services. Its principal activities cover comprehensive investment in and development of urban land; investment in, development, operation and management of urban industrial parks; market-oriented supply, operation and management of urban public goods and public services. During 2018, BE City Investment had actively established the presence in the key areas under China's strategic plan, make full use of its shareholders' comprehensive strengths in general municipal planning, business integration, financing and technical innovations, actively seek and develop high-quality projects, quickly expand its size of operation in order to achieve the goal of becoming a unique comprehensive urban operation and investment group with a leading position in the PRC, which is expected to bring considerable returns of investment to the Group in the foreseeable future.

BUSINESS PROSPECTS

The Group proactively implements its overall strategy through in-depth integration with local governments, enterprises and the industry. With years of operating experience, the Group has established a comprehensive business model comprising the "financing, investment, management and exit" stages, which lays a strong foundation for the Group's sustainable development. Meanwhile, the Group possesses unique strengths in the following areas amidst market competition: As a state-owned enterprise, it has relatively more advantages in terms of land acquisition, allowing it to overcome the difficulty of obtaining land. It has a stable customer base that includes Kerry Logistics, MOL Logistics, Nippon Express, Sinotrans, SF Express, JD.com and other large-scale corporations from diversified sectors. Such stable customer relations are valuable assets to the Group, providing potential tenants for new projects. Besides, we have an experienced management team which allows us to proactively study trends and capture market opportunities.

2019 is an important year for the full implementation of the 13th Five Year Plan, and a crucial year for the further promotion of supply-side structural reform. With the implementation of "Made in China 2025" (《中國製造2025》), the logistics industry is expected to achieve an in-depth integration with the enhancement of various industries, thereby supporting the industry to undergo transformation and upgrade. In order to accelerate the construction process of a modern supply chain system, facilitate economic development by enhancing quality, effectiveness and lowering cost, and realize high-quality development, the Ministry of Finance and the Ministry of Commerce issued the "Notice Regarding the Launch of the Construction of the Modern Supply Chain System in the Sphere of Circulation in 2018" in May 2018. The major task prescribed in the notice is to "build a strong foundation for supply chain development by strengthening the construction of logistics infrastructure", with the aim of creating a cross-district nationwide logistics hub, promoting a business and logistics park that exerts a great level of influence, achieves high standardization and has strong comprehensive service capability, upgrading and reforming professional wholesale markets, and forming a circulation service centre that encompasses trade, distribution, storage, cold chain logistics and e-commerce functions. At the same time, plans are made at the Executive Meetings of the State Council to further lower logistics costs, enhance efficiency and to alleviate the burden of enterprises, so as to boost economic development. To quote: "Land-use tax in municipalities with regard to land rented by logistics companies for their commodity storage facilities will be reduced by half from 1 May 2018 to 31 December 2019".

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PROSPECTS (continued)

Benefited by multiple policies, the Group experienced rapid development in recent years. It currently owns five major business platforms, namely China Logistics, China Warehouse, China Cold Chain, China Industrial Properties, and China Hui Ying Agribusiness. Entering the global market, the Group has also undergone global distribution of its assets and launched the Sino-Cambodian SEZ project.

The China Logistics platform leverages on the development of port logistics infrastructure and enhances customer operation efficiency by establishing large or mega logistics parks at "seaports", "airports" and "land ports". Providing maritime transport, "seaports" support the major type of transportation used in international logistics. At present, more than two-thirds of the total volume of international trade and approximately 90% of total import and export volumes in China rely on maritime transport. Such large throughput figures reflect a strong demand for logistics infrastructure. China Logistics has now deployed customs logistics facilities with an area of 200,000 sq.m. at Waigaoqiao, Shanghai. It is committed to expanding the business to Humen Dongguan and Xiamen, and it is expected that the Group will receive development rights of land covering 300,000 sq.m. in 2019. Providing air transport, "airports" are mainly used to deliver electronic products, medical machineries and food with high added-value. According to the "Guidance Notes of the Civil Aviation Administration on Enhancing the Development of Airfreight Logistics" (《民航局關於促進航空物流業發展的指導意見》(民航發[2018]48號)), issued in 2018 the Civil Aviation Administration optimizes the distribution of its airfreight resources, fully carries out the digitalization of airfreight logistics, steadily enhances its airport ground handling service quality and efficiency, in order to boost the development of airfreight logistics, expand the strategic industry system of its services, and to showcase the wide range of efficient, value-added services provided by airfreight logistics. Currently, the Group established storage facilities with an area of 100,000 sq.m. at Tianjin Airport, and obtained land with an area of approximately 170 mu for the new airport at Jiaozhou, Qingdao in 2019, which is expected to be built into a storage facility covering 136,000 sq.m. "Land ports" is now the major carrier node of land transport. Within inland transport, the value of goods delivered through land transport remains the largest among different logistics services. Nodes are connected by a network of highways, ultimately achieving door-to-door transport. In particular, the rapid development of e-commerce is still dependent on land transport methods. The Group has built a land port of approximately 250,000 sq.m. at Tongzhou Port, Beijing, and will continue to develop it into a port of 690,000 sq.m. Meanwhile, the Group has established large land port facilities in Wuhan, Zhengzhou, Kunming, Chongqing and other cities in Central and Western China that can act as important nodes.

The China Warehouse platform is principally engaged in the investment, development and operation and management of logistics properties. It operates three projects located in Xiamen, Fujian; Haikou, Hainan; and Meishan, Sichuan respectively, and has two planned development projects in Tongliao and Xi'an. The platform mainly operates in the form of funds based on systematic and process management methods. With stable operation and steady growth in occupancy rates, all projects contribute stable sustained revenue for the company. The project mainly serves well-established e-commerce companies such as JD, China Merchants Logistics, Logistics South, and logistics companies, and it establishes good working relations with its customers. In the future, the platform will realize the Group's full industrial chain model by putting stably-operated quality projects through asset-securitization or disposal.

The China Cold Chain Platform leverages on the constant upgrading of China's consumption structure, the rapid rise of the fresh food e-commerce industry and the continuous implementation of encouragement policies by the Chinese government. The cold chain logistics industry of China hence entered a stage of rapid growth and exhibits a great opportunity for development. With quality cold chain projects in Qingdao and Tianjin as the foundation, the Group will build an online core asset consisting of frozen product trading at the online comprehensive trading centre, and an offline core asset consisting of physical cold chain storage service. These will be supported by major businesses, namely, international trade agency service, supply chain finance service, cold chain delivery service and food processing service, to create a comprehensive service platform for the frozen product cold chain industry that incorporates an "Online to Offline" (O2O) and "Business to Business" (B2B) business chain. The large market demand facilitates the speedy integration of the cold chain industry, thus providing an opportunity for rapid development for the cold chain platform in China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PROSPECTS (continued)

The China Industrial Properties platform is where the Group will cultivate new areas for profit growth, build diversified business models and start engaging in the investment of industrial properties. Starting from the Yangtze River Delta Economic Zone, a hub for modern service and advanced manufacturing industry with global importance, and one of the first locations to undergo the new round of China's reform and opening up, the Group proactively formulates its plan to make the area surrounding Shanghai its focus. It will set up high-end industrial factories, logistics warehouses and smart manufacturing industrial park in places such as Taicang, Changshu, Wuzhong, Jiaxing and Changzhou, in order to attract Western customers and well-established manufacturers, research and development enterprises with advanced technologies, and third party logistics companies to the area, and to provide standardized services of the highest quality. Due to the fact that high-end manufacturing industries experienced rapid development as a result of China's beneficial policies, and that the government strongly supports the construction of industrial parks and provides tax exemptions and allowances to facilitate the investment, development and operation of such parks, developers can now obtain land at a low cost. Thus, to a certain degree, they are assured of receiving subsequent income and gains from their projects. During the year, the Group has continuously reviewed the possibilities of establishing such platform in other regions of China. Areas under inspection include Shandong and Tianjin.

The China Hui Ying Agribusiness platform is a modern agricultural product wholesale market established by the Group with the approval of the Quzhou Municipal Government in the Zhejiang Province. The market covers a land area of 427 mu. Its major function is to serve as a modern digitalized agricultural product delivery and trading platform, which simultaneously acts as a cold storage zone, agricultural product delivery and trading zone, information service and testing zone, and is used for the e-commerce of agricultural products, display and exhibition of agricultural products, and comprehensive ancillary services. The platform is a direct driving factor of the development of the trading industry of agricultural products in Quzhou. Besides enhancing economic vitality and competitiveness, it can increase the income level of local residents at the same time. With an increased tax revenue for the Quzhou government, they can further create a quality market and increase consumption levels. Despite being at the stage of market cultivation, the project has received immense attention and support from the Zhejiang Provincial Government and Quzhou Municipal Government during its construction and operation process. It has been named a "provincial key project", "provincial major industrial project", "provincial key foreign investment project", and "the leading agricultural enterprise in Zhejiang Province" and a "public welfare market at the provincial level in Zhejiang".

The Group also actively established overseas presence. Leveraging the opportunities brought by the promotion and implementation of the "Belt and Road Initiative" in Southeast Asia, the Group invested in the Cambodia special economic zone, established a bridge from mainland China to Southeast Asia for enterprises going out, and provided clustered industrial clusters. The Group will be responsible for the development positioning, industry planning, land expansion and infrastructure services in the Sino-Cambodian Phnom Penh Special Economic Zone, carrying out coordinated operation and meeting of the special economic zone and proving relevant policy consulting and connection services. It will endeavour to develop the special economic zone into a new industrial town in the ASEAN region and achieve considerable income from development.

Looking forward, the Group will actively seize the opportunities and seek suitable investment opportunities with industrial operation and capital operation as growth drivers. It will further improve strategic presence in the logistics property, industrial property and cold chain industries in the PRC while actively conducting its business model under the "financing, investment, management and exit" approach, to enable the Group to continue to develop into a comprehensive property platform with diversified activities, and create strong returns to the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Gross Profit Analysis

The revenue (net of business tax) for the year ended 31 December 2018 amounted to approximately HK$480.71 million, representing an increase of approximately HK$145.68 million or 43.48%, from approximately HK$335.03 million for the year ended 31 December 2017. The gross profit for the year ended 31 December 2018 amounted to approximately HK$325.03 million, representing an increase of approximately HK$69.96 million, or 27.43% from approximately HK$255.07 million for the year ended 31 December 2017.

The revenue (net of business tax) contributions of the Group's assets included:

	2018		2017		Change	
Name of assets	**Revenue**	**GP Margin**	**Revenue**	**GP Margin**	**Revenue**	**GP Margin**
	HK$'000	%	HK$'000	%	HK$'000	%
High-end and Modern General Warehouses Business						
Shanghai	**87,497**		80,876		6,621	
Tianjin	**34,287**		30,597		3,690	
Xiamen	**31,509**		25,741		5,768	
Meishan	**14,971**		10,293		4,678	
Hainan	**15,126**		12,592		2,534	
Tongliao	**3,062**		1,194		1,868	
	186,452	**91.57**	161,293	92.88	25,159	(1.31)
Cold chain logistics warehouses						
Tianjin	**30,922**		19,383		11,539	
Qingdao	**2,212**		3,586		(1,374)	
	33,134	**30.72**	22,969	68.50	10,165	(37.78)
Specialised wholesale markets						
Quzhou Tongcheng	**20,067**	**52.92**	10,083	20.90	9,984	32.02

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Revenue and Gross Profit Analysis (continued)

Name of assets	2018 Revenue HK$'000	2018 GP Margin %	2017 Revenue HK$'000	2017 GP Margin %	Change Revenue HK$'000	Change GP Margin %
Industrial properties						
Zhejiang	**20,121**	**93.85**	1,738	52.58	18,383	41.27
Commercial properties						
Guangzhou	**45,295**		43,300		1,995	
Beijing	**97,636**		95,642		1,994	
	142,931	**64.90**	138,942	62.20	3,989	2.70
Primary Land Development Business						
Zhong Jian Jin Bian	**78,000**	**28.00**	–	–	78,000	N/A
The Group	**480,705**	**67.61**	335,025	76.13	145,680	(8.52)

High-end and modern general warehouses

The revenue contribution of high-end and modern general warehouses for the year ended 31 December 2018 amounted to approximately HK$186.45 million, representing an increase of approximately HK$25.16 million or 15.60% from approximately HK$161.29 million for the year ended 31 December 2017. The increase was primarily attributable to the increase in average occupancy rate of Meishan and Xiamen warehouse and a stable increase of rental income of Shanghai warehouses. The gross profit margin slightly decreased from approximately 92.88% for the year ended 31 December 2017 to approximately 91.57% for the year ended 31 December 2018.

Cold chain logistics warehouses

The revenue contribution of cold chain logistics warehouses for the year ended 31 December 2018 amounted to approximately HK$33.13 million, representing an increase of approximately HK$10.16 million or 44.23% from approximately HK$22.97 million for the year ended 31 December 2017. The increase was primarily attributable to the increase in average occupancy rate of Tianjin's cold chain logistics warehouses as the impact of strengthen a relationship with certain frozen product trading companies.

Specialised wholesale markets

The revenue contribution of specialised wholesale markets for the year ended 31 December 2018 amounted to approximately HK$20.07 million, representing an increase of approximately HK$9.99 million, or 99.11%, from approximately HK$10.08 million for the year ended 31 December 2017. The sharp increase in revenue was attributable to the completion of phase II in November 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Industrial properties

The revenue contribution of industrial properties for the year ended 31 December 2018 amounted to approximately HK$20.12 million, representing an increase of approximately HK$18.38 million or 1,056% from approximately HK$1.74 million for the year ended 31 December 2017. The sharp increase was attributable to the completion of Zhejiang project and run the business in the second half of 2017. The average occupancy rate is 100% in 2018.

Commercial properties

The revenue contribution of commercial properties for the year ended 31 December 2018 amounted to approximately HK$142.93 million, representing an increase of approximately HK$3.99 million or 2.87% from approximately HK$138.94 million for the year ended 31 December 2017. The slightly increase was primarily attributable to improvement of the average room occupancy rate of the hotel located in Beijing. The gross profit margin slightly increased from approximately 62.2% for the year ended 31 December 2017 to approximately 64.90% for the year ended 31 December 2018.

Changes in fair value of investment properties, net

For the year ended 31 December 2018, net fair value gain of investment properties was approximately HK$478.05 million, the gain was mainly attributable to the fair value increment of properties located in the Quzhou Tongcheng, Guangzhou Guangming and Zhejiang. The increase mainly from the construction in progress turn to investment properties this year for projects in Quzhou and Zhejiang.

Gains on bargain purchases of subsidiaries

For the year ended 31 December 2017, gains on bargain purchases is mainly attributable to the acquisition of 60% equity interest in Zhong Jian Jin Bian Jing Ji Te Qu Limited ("Zhong Jian Jin Bian") at a consideration of approximately HK$1.57 billion. The aggregate fair value of the net assets acquired at the date of acquisition was approximately HK$2.14 billion. Accordingly, gain on bargain purchase for the acquisition of Zhong Jian Jin Bian of approximately HK$571 million were resulted and recognised in the consolidated financial statement of the Group.

Other income and gains, net

For the year ended 31 December 2018, net other income and gains were approximately HK$123.23 million, which represented a decrease of approximately HK$77.31 million, or 38.55%, from approximately HK$200.54 million for the year ended 31 December 2017. The decrease in net other income and gains was primarily related to the foreign exchange. Given the Group's borrowings are mainly in US dollars, the foreign exchange loss arise from the US dollars appreciation against the Renminbi during the year.

Selling and distribution expenses

For the year ended 31 December 2018, selling and distribution expenses were approximately HK$15.98 million, which represented a decrease of approximately HK$1.6 million, or 9.1%, from approximately HK$17.58 million for the year ended 31 December 2017.

Administrative expenses

For the year ended 31 December 2018, administrative expenses were approximately HK$239.27 million, which represented an increase of approximately HK$32.04 million, or 15.46%, from approximately HK$207.23 million for the year ended 31 December 2017. The increase in administrative expenses was primarily related to staff costs, due diligence expenses, legal expenses and other relative expenses to business expansion in industrial property business, cold-chain warehouses business and primary land development business.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Other expenses

For the year ended 31 December 2018, other expenses were approximately HK$37.60 million, which represented an increase of approximately HK$2.09 million, or 5.89%, from approximately HK$35.51 million for the year ended 31 December 2017. The increase in other expenses was primarily related to the foreign exchange loss.

Finance costs

For the year ended 31 December 2018, finance costs were approximately HK$490.36 million, representing a decrease of approximately HK$16 million, or 3.16%, from approximately HK$506.36 million for the year ended 31 December 2017. The decrease in finance costs mainly due to the net effect of: (i) interest on bank and other loans of approximately HK$161.23 million (2017: approximately HK$99.95 million); (ii) interest on USD guaranteed bonds of approximately HK$329.13 million (2017: approximately HK$251.88 million); and (iii) there are no imputed interest and coupon interest on PAG Convertible Bonds and loss on early redemption of convertible bonds during the year (2017: approximately HK$49.97 million, HK$21.63 million and HK$82.93 million, respectively).

Share of profits of joint ventures

For the year ended 31 December 2018, the share of profits of joint ventures of approximately HK$167.31 million was mainly contributed by BIPL. The increase in sharing profits of joint ventures for 2018 compared to 2017 was primarily related to the fair value increment in investment properties of BIPL.

Share of profits of associates

For the year ended 31 December 2018, the share of profits of associates of approximately HK$6.11 million was mainly contributed by share the results of Beijing Enterprises Medical and Health Industry Group Limited ("BE M&H"), a listed company on The Stock Exchange of Hong Kong Limited and BE City Investment.

Income tax expense

Income tax expense for year ended 31 December 2018 included current income tax of HK$39.37 million. Deferred tax expense for the year ended 31 December 2018 was HK$176.96 million which arose from the change in the fair value of investment properties.

Investment properties

Investment properties increased by approximately HK$109.81 million, which was mainly due to the net effect of (i) the construction of warehouse for industrial property business of HK$405.43 million; (ii) the increase in fair value of HK$478.05 million for the year ended 31 December 2018; (iii) the transfer of HK$339.10 million to owner-occupied property and prepaid land lease payments; and (iv) exchange realignment of HK$462.35 million.

Goodwill

Goodwill represented the acquisition in previous years for logistics warehouse business and commercial property business. There was no movement during the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Interests in joint ventures

Interests in joint ventures included in non-current assets decreased by approximately HK$44.49 million, which was mainly due to the net effect of (i) share of profits of HK$167.31 million for the year ended 31 December 2018; (ii) capital injection to BIPL and Tianjin Beijing Inland Port Company Limited ("TBIPL") of HK$250.84 million and HK$5.69 million, respectively; and (iii) repayment of loans granted to BIPL of HK$408.49 million.

Investments in associates

Investments in associates increased by approximately HK$102.14 million, mainly due to capital contribution of HK$119.50 million into BE City Investment during the year ended 31 December 2018.

Equity investment at fair value through other comprehensive income

Equity investment decreased by approximately HK$30.18 million, which was due to the drop in closing market price as at 31 December 2018 of CAQ comparing to the last year. As at 31 December 2018, the closing market price of CAQ quoted on Australian Securities Exchange was A$0.038 and the fair value of 108,628,000 shares of CAQ held by the Company was A$4.13 million (equivalent to approximately HK$22.79 million) which was recognised in the consolidated financial statements of the Group.

Deposits paid for the acquisitions of subsidiaries

Deposits as at 31 December 2017 represented a consideration paid for an acquisition of a project located in Shenyang, as the occupancy rate did not meet the objective set out in the agreement, the project has been terminated and the full deposits has been refunded.

Land held for development or sale

Land held for development or sale mainly represented lands located in Cambodia and Jiangsu for the Group primary land development business and industrial property business, respectively. The increase in balance was mainly due to acquisition of a land located in Jiangsu during the year.

Cash and cash equivalents (including restricted cash)

Cash and cash equivalents increased by HK$91.65 million, mainly due to the net effect of (i) deposit received for setting up a fund of HK$625.96 million; (ii) capital injection in associates and joint ventures of HK$376.03 million; (iii) repayment of loans from BIPL of HK$408.49 million; (iv) net bank loans of HK$543.47 million drawn; (v) addition of investment properties of HK$466 million; and (vi) repayment of guaranteed bond of HK$2.34 billion and issuance of guaranteed bond of HK$1.93 billion.

Due to other related parties

Due to other related parties was mainly representing funding granted by the non-controlling shareholder of the Company's subsidiary located in Cambodia, the amount is unsecured, interest-free and not repayable within one year.

Bank borrowings

Bank borrowings increased by HK$452.59 million (non-current portion decreased by HK$495.18 million and current portion increased by HK$947.77 million), mainly due to the net effect of utilising to finance for the construction of projects in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Guaranteed bonds

Guaranteed bonds decreased by HK$404.35 million due to the net effect of (i) repayment of a guaranteed bond with an principal amount of US$300 million which was mature on 19 November 2018; and (ii) issuance of a guaranteed bond with an principal amount of US$250 million which will be mature on 16 August 2020. Further details of the bonds issued by the Company are set out in the Company's announcements dated 2 March 2017 and 10 August 2018.

Liquidity and financial resources

As at 31 December 2018, for accounting purposes, the Group had total borrowings of approximately HK$7,756.03 million (31 December 2017: approximately HK$7,707.79 million) which included: (i) approximately HK$3,510.00 million from bank borrowings; and (ii) approximately HK$4,246.04 million from USD guaranteed bonds. The Group's gearing ratio, which was defined as sum of bank borrowing and guaranteed bonds, net of cash and cash equivalents and restricted cash, divided by the total equity, was approximately 90.34% (31 December 2017: approximately 88.02%).

As at 31 December 2018, the Group's balance of bank borrowings amounted to approximately HK$3,510.00 million, which was denominated in United States dollars ("USD"), Hong Kong dollars ("HK$") and Renminbi ("RMB") as to 56.11%, 7.45% and 36.44%, respectively. 31.77% of these bank borrowings was repayable less than one year. As at 31 December 2018, the Group's cash and bank balances amounted to approximately HK$1,820.36 million, which were denominated in USD, HK$ and RMB as to 18.19%, 2.25% and 79.56%, respectively. Bank borrowings of an aggregate amount of HK$3,384.81 million bear interest at floating rates, the USD guaranteed bonds issued in March 2017 and August 2018 bear coupon rates of 4.375% and 9.00% per annum, respectively. The cash and bank balances, together with the unutilised banking facilities, are sufficient to finance the Group's businesses at the moment.

As at 31 December 2018, the Group's current ratio and quick ratio were approximately 76.15% and 72.83%, respectively (31 December 2017: approximately 71.76% and 53.53%, respectively).

The net total borrowings of the Group as at 31 December 2018 (total borrowings less cash and cash equivalents and restricted cash) was HK$5,935.67 million (31 December 2017: HK$5,979.08 million), representing a decrease of HK$43.41 million as compared to the previous year.

Contingent liabilities

As at 31 December 2018, the Group had no contingent liabilities (31 December 2017: Nil).

Capital expenditures

For the year ended 31 December 2018, the Group spent approximately HK$441.35 million (2017 Period: approximately HK$5,289.55 million) as capital expenditures, which consisted of the purchase of property, plant and equipment, investment properties and land held for development or sale.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Capital commitments

As at 31 December 2018, the Group had outstanding contracted capital commitments amounted to approximately HK$544.93 million in aggregate which comprised commitments for:

– the outstanding land costs of approximately US$29.27 million (equivalent to approximately HK$229.16 million) for primary land development business.

– the outstanding construction costs of approximately RMB169.02 million (equivalent to approximately HK$192.37 million) committed for warehouse facilities.

– the outstanding capital injection of approximately RMB105 million (equivalent to approximately HK$119.50 million) payable for BE City Investment.

– the outstanding capital injection of approximately US$500,000 (equivalent to approximately HK$3.90 million) payable for a joint venture.

Treasury policies

The Group adopts conservative treasury and risk management policies and controls tightly over its cash. The Group's cash and cash equivalents are held mainly in HK$, RMB and USD. Surplus cash is generally placed in short term deposits denominated in these currencies.

Foreign exchange exposure

The Group mainly operates in the PRC with most of the domestic transactions settled in RMB for its PRC business and the Company's financing activities are mainly determine in USD. Meanwhile, fluctuations of exchanges rates would impact our net assets value due to currency translation upon consolidation. If RMB appreciated/depreciated against HK$, the Group would record a(n) increase/decrease in our net assets value, as part of the Group's borrowings and cash balances are denominated in HK$ and USD. For the year ended 31 December 2018, the Group did not employ financial instruments for hedging its exposures to foreign currency risk. The Group will closely monitor its exposures to fluctuation in foreign currencies' exchange rates as exchange rate fluctuation of foreign currencies against RMB may have a material financial impact on our Group.

Significant investments and acquisitions

For the year ended 31 December 2018, the Group had following significant investments and acquisitions.

(a) *The deemed disposal of China Industrial Properties (Holdings) Limited ("CIPHL")*

On 15 December 2017, CIPHL, a wholly-owned subsidiary of China Industrial Properties (Group) Limited ("CIPGL") entered into subscription agreement with CIPGL a wholly- owned subsidiary of the Group, Red Supreme Limited ("Red Supreme") and Champion Yield International Limited ("Champion Yield") (collectively referred to as the Subscribers"). Pursuant to which Subscribers conditionally agreed to subscribe for, and CIPHL conditionally agreed to allot and issue, an aggregate of 2,752 new shares, representing 27.52% of the total issued shares of CIPHL immediately after the issue of the subscription shares at RMB200,000,000, being the total consideration payable by CIPGL (RMB100,000,000), Red Supreme (RMB50,000,000) and Champion Yield (RMB50,000,000). The transaction has been competed during the year ended 31 December 2018. The equity interest of the Group in CIPHL was reduced to 72.48%. Red Supreme is beneficially owned by Mr. Yue, Ms. Tian and an independent third party as to 47%, 6% and 47% respectively. Mr. Yue is director of CIPHL and CIPGL, Ms. Tian is director of CIPHL. Details of the acquisition can be found on the websites of the Company and the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Significant investments and acquisitions (continued)

(b) *Proposed disposal of a subsidiary and establishment of a limited partnership*

On 3 August 2018, China Logistics Infrastructures (Holdings) Limited ("CLI"), a 65% owned subsidiary of the Company, and GLP Shanghai, (together with CLI, the "Parties") entered into a framework agreement (the "Framework Agreement"). Pursuant to the Framework Agreement, the Parties intend to jointly establish an entity outside the PRC to act as a general partner, which will, together with each of the Parties (and/or its affiliate) as limited partners, jointly establish a privately offered fund structured as a limited partnership outside the PRC (the "Fund"). It is intended that the Fund or its subsidiary shall act as the purchaser in the acquisition of equity interests in a number of subsidiaries directly or indirectly owned by CLI and the Company which own certain plots of land in the PRC (together with the buildings and structures thereon, the "Properties"). The consideration is approximately RMB6.70 billion (equivalent to approximately HK$7.70 billion) which is determined based on the value of the Properties as set out in the Framework Agreement. As at the date of approval of this annual report, the transaction has not been completed and is subject to fulfilment of certain conditions precedent and further negotiation between the Parties. Further details of this transaction are set out in the Company's announcement dated 3 August 2018, 1 November 2018 and 1 February 2019, respectively.

(c) *Acquisition of land in Cambodia*

On 28 December 2018, Zhong Jian Jin Bian and an independent third party entered into an agreement pursuant to which Zhong Jian Jin Bian has conditionally agreed to purchase 79 plots of land with a total area of approximately 1,130,000 sq.m. located in Kampong Tralach District, Kampong Chhnang Province, Cambodia. The consideration is approximately US$29.27 million (equivalent to approximately HK$229.16 million). As at the date of approval of this annual report, the transaction has not been completed. Further details of the acquisition is set out in the Company's announcement dated 28 December 2018.

Charges on assets

As at 31 December 2018, the Group had bank loans with principal amounts of approximately HK$1,776.23 million being secured by certain investment properties, cash and bank balances, trade receivables and equity interests in certain subsidiaries of the Group and all of which were guaranteed by the Company.

Litigations

As at 31 December 2018, the Group had no pending litigation.

Employees and remuneration policies

As at 31 December 2018, the Group had a total of 616 (2017: 591) employees. Total staff cost incurred for the year ended 31 December 2018 amounted to approximately HK$126.48 million (2017: approximately HK$101.36 million) (including staff cost and directors' remuneration). The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and packages are periodically reviewed by the management. Apart from pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

DIRECTORS AND SENIOR MANAGEMENT

Our board (the "Board") of directors (the "Directors") currently consists of fifteen Directors, comprising ten executive Directors and five independent non-executive Directors.

EXECUTIVE DIRECTORS

MR. QIAN XU

Born in September 1963, chairman, Mr. Qian is the chairman and an executive director of the Beijing Enterprises Real-Estate Group Limited ("BE Real Estate"). Mr. Qian graduated from the Economics and Management Faculty of the Beijing Industrial University with a Bachelor's degree in Economics and has obtained his EMBA degree from Tsinghua University. Mr. Qian has extensive experience in corporate management. Mr. Qian is a director of Brilliant Bright Holdings Limited ("Brilliant Bright"), which is a controlling shareholder of the Company. Mr. Qian is the non-executive director of CAQ Holdings Limited ("CAQ"), a company listed on the Australia Stock Exchange with Listing Corporation Code of CAQ since April 2015. Mr. Qian was appointed the chairman of MillenMin Ventures Inc. ("MVM"), a company listed on the Toronto Stock Exchange with Listing Stock Code of MVM since August 2017 and was appointed an executive director of MVM since July 2017. From May 2017 to February 2019, Mr. Qian was an executive director of Beijing Enterprises Medical and Health Industry Group Limited ("BE M&H") (SEHK Stock Code: 2389). Mr. Qian joined the Group in July 2009.

MR. SIU KIN WAI

Born in September 1968, chief executive officer, Mr. Siu graduated from the City University of Hong Kong with a Bachelor's degree in Accountancy and is fellow members of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Siu has extensive experience in corporate management. Mr. Siu is a director of Brilliant Bright, which is a controlling shareholder of the Company. Mr. Siu is the non-executive director of CAQ since April 2015. Mr. Siu was appointed an executive director and chief executive officer of MVM since July 2017 and has resigned as the chief executive officer of MVM with effect form 30 April 2018. Mr. Siu is an executive director of BE M&H since May 2017. Mr. Siu is an independent non-executive director of Orient Securities International Holdings Limited (SEHK Stock Code: 8001) since September 2017 and he also serves as an independent non- executive director of Agritrade Resources Limited (SEHK Stock Code: 1131) since August 2010. Mr. Siu joined the Group in July 2009.

Mr. ZHAO JIANSUO

Born in August 1963, is an executive director, the secretary and the chairman of the labour union of BE Real Estate. Mr. Zhao graduated from the Party School of the Central Committee of C. P. C. majoring in international economics. He served in the People's Liberation Army General Staff Department from 1980 to 1992 and was a captain and assistant engineer when he retired from the army. Mr. Zhao worked at the Cadre Division of the Urban Construction Work Commission of the CPC Beijing Municipal Committee from 1992 to 2003, and joined Beijing Gas Group Co., Ltd. as the deputy director of the general office in 2003. In 2005, Mr. Zhao joined Beijing Enterprises Group Company Limited ("BE Group") as the deputy director of the general office and deputy chairman of the labour union. Mr. Zhao was re-designated by BE Group as the deputy secretary and chairman of the labour union of its subsidiary, BE Real Estate, in 2015. Mr. Zhao has extensive experience in corporate management, internal control and government liaison. Mr. Zhao joined the Group in June 2016.

DIRECTORS AND SENIOR MANAGEMENT

MR. LI SHUPING

Born in January 1972, is an executive director and the general manager of BE Real Estate. Mr. Li is a graduate of Tongji University, majoring in urban gas studies. Mr. Li worked at Beijing Gas Planning Company (北京市燃氣設計公司) from 1994 to 2000. Mr. Li joined an engineering consultant subsidiary of a gas group company in 2000 and served as the division head of the planning division, the deputy manager of the engineering and construction department as well as the executive deputy manager. He joined Beijing Gas Group Co., Ltd. as the manager of the engineering and construction department in 2009. In 2010, Mr. Li joined BE Real Estate as the person-in-charge of the engineering management and cost control department. From 2011 to 2016, Mr. Li served as the general manger of Beijing Enterprises Group International Capital Properties Development Co., Ltd.(北京北控國際會都房地產開發有限責任公司), and the assistant general manager, the deputy general manager and the general manager of BE Real Estate. Mr. Li has extensive experience in areas including corporate management, engineering and construction and cost control. Mr. Li joined the Group in December 2016.

MR. DONG QILIN

Born in December 1965, vice general manager of BE Real Estate. Mr. Dong graduated from the University of Science and Technology in Beijing with a Master's degree in Public Administration (MPA) and obtained the professional and technological qualifications of Senior Accountant and Certified Public Accountant of the PRC. Mr. Dong has extensive experience in corporate management and financial operation.

MR. LI CHANGFENG

Born in March 1973, is the chairman and an executive director of China Logistics Infrastructures (Holdings) Limited ("China Logistics"), a subsidiary of the Company, and Mr. Li was appointed the managing director of company on 3 January 2018. Mr. Li graduated from the Northern Jiaotong University with a Master's degree in Transportation Management and obtained the professional and technological qualification of Engineer of the PRC. Mr. Li has extensive experience in corporate management and logistics property investment and development.

MR. CHENG CHING FU

Born in March 1974, chief financial officer and company secretary, Mr. Cheng graduated from Curtin University, Perth, Western Australia with a Bachelor's degree in Commerce, majoring in Accounting and Finance. He then obtained a Master of Business Administration from the University of South Australia and a Master of Corporate Governance from the Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the CPA Australia, an associate member of The Hong Kong Institute of Chartered Secretaries and an associate member of the institute of Chartered Secretaries and Administrators. Mr. Cheng is a director of China Logistics and China Industrial Properties (Holdings) Limited ("CIPHL"), both are subsidiaries of the Company. Mr. Cheng is the non-executive director of CAQ since November 2017. Mr. Cheng was appointed an executive director, chief financial officer and company secretary of MVM on 30 April 2018. Mr. Cheng has extensive experience in the field of accounting, financial management and company secretary duties.

MR. YU LUNING

Born in April 1961, graduated from the Economics and Management Faculty of the Beijing Industrial University with a Bachelor's degree in Economics. Mr. Yu has extensive experience in property development, corporate restructuring and financial management. Mr. Yu joined the Group in January 2011.

MR. ANG RENYI

Born in July 1985, holds a Bachelor's degree in Environmental Engineering from the Harvard University. Currently, Mr. Ang is an executive director of Metropoly Holdings Limited, a company that specialise in real estate investment and development. Prior to joining our Board, Mr. Ang had been an analyst of energy and natural resources group in J.P. Morgan Asia Pacific. He has extensive experience in the areas of banking and capital markets. Mr. Ang joined the Group in December 2012.

DIRECTORS AND SENIOR MANAGEMENT

MR. NG KIN NAM

Born in December 1958, Mr. Ng has over 30 years of experience in management of business. In addition, he serves as the Honorable President of Eastern District Industries & Commerce Association, the Life Honorable President of Jin Jiang Clans Association (H.K.) Ltd., the Vice President of Ng Clan's Association, the Honorable President of The HK Fujian Charitable Education Fund and the director of Guangdong Chamber of Foreign Investors. Mr. Ng was an executive director of the Company from 2002 to 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. GOH GEN CHEUNG

Born in January 1947, Mr. Goh has been appointed as an independent non-executive director of the Group since November 1997. Mr. Goh has over 30 years of treasury, finance and banking experience. Mr. Goh is a certified banker of the Hong Kong Institute of Bankers and obtained his MBA degree from the University of East Asia in Macau. Mr. Goh also serves as an independent non-executive director of CEC International Holdings Limited (SEHK stock code: 759).

MR. ZHU WUXIANG

Born in May 1965, Mr. Zhu is currently a professor of the Department of Finance of the School of Economics and Management, Tsinghua University. Mr. Zhu graduated from Tsinghua University in 2002, specialising in Quantitative Economics and has obtained a Doctorate. He has been studying and working at Tsinghua University since 1982. Mr. Zhu is an independent non-executive director of China Cinda Asset Management Co., Ltd. (SEHK Stock Code: 1359) since October 2016. Mr. Zhu was appointed as an independent non-executive director of Visual China Group Co., Ltd., a company listed on the Shenzhen Stock Exchange, the PRC (Listing Corporation code: 000681) on 24 October 2018. Mr. Zhu also serves as an independent non-executive directors of CFLD Inc., a company listed on the Shanghai Stock Exchange, the PRC (Listing Corporation code: 600340). From October 2014 to October 2017, Mr. Zhu was an independent non-executive director of Dongxing Securities Corporation Limited, a company listed on the Shanghai Stock Exchange, the PRC (Listing Corporation code: 601198). From March 2016 to June 2018, Mr. Zhu was an independent non-executive director of Zhongxing Telecommunication Equipment Corporation (SEHK Stock Code: 763). Mr. Zhu joined the Group in January 2011.

MR. JAMES CHAN

Born in January 1954, Mr. Chan has over 30 years of comprehensive experience in design, planning and land matters, and design development and construction management of investment properties. Mr. Chan holds a Bachelor's degree of Arts in Architectural Studies from the University of Hong Kong, a Bachelor's degree of Architecture from the University of Dundee in Scotland and an EMBA degree from Tsinghua University. Mr. Chan also is an executive director and the project director of the Pacific Century Premium Development Limited (SEHK Stock Code: 432) and an non-executive director of Viva China Holding Limited (SEHK Stock Code: 8032). Mr. Chan joined the Group in June 2011.

MR. SONG LISHUI

Born in January 1958, Mr. Song is currently a professor of the Department of Economics of the Faculty of Economics at the Meiji Gakuin University, Japan. Mr. Song obtained a Doctorate in Economics from the Graduate School of the Ritsumeikan University in March 1996, a Master's degree in Economics from the Graduate School of the Kyoto University in March 1991 and a Bachelor's degree in Economics from the Department of Planning and Statistics from Renmin University of the PRC in July 1986. He has been working for the Meiji Gakuin University, Japan since 1996, and is a deputy representative of the executive council of the Society of Chinese Professors in Japan and a visiting researcher of 日本TORAY經營研究所. Mr. Song was a visiting scholar of the Center for East Asian and Pacific Studies at the University of Illinois, the United States. He also served as a civil servant at the Personnel and Education Department of the National Bureau of Statistics of the PRC. He has extensive experience in economic analysis. Mr. Song joined the Group in December 2014.

DIRECTORS AND SENIOR MANAGEMENT

MR. XIE MING

Born in October 1955, is the chairman of 固態白酒原酒委員會 of China Alcoholic Drinks Association, honorary chairmen of Sichuan Development Grain Liquor Equity Investment Fund*（四川發展純糧原酒股權投資基金）and Sichuan Yucheng Wine Industry Investment Management Co., Ltd.*（四川宇晟酒業投資管理有限公司）and Sichuan deputy to the National People's Congress. Mr. Xie was the retired chairmen of Luzhou Laojiao Co., Ltd, whose shares are listed on the Shenzhen Stock Exchange (stock code: 000568), Luzhou Laojiao Group Co., Limited*（瀘州老窖集團有限責任公司）and Luzhou Laojiao International Development (Hongkong) Co., Limited. Prior to that, he served with the government of Luzhou as the secretary. Mr. Xie obtained a master's degree in business administration from Sichuan University in and obtained his EMBA from Tsinghua University.

The senior management team of the Group include:

MR. YUE CHEN

Born in September 1963, is the chairman and executive director of CIPHL. Mr. Yue obtained a graduate diploma in foreign trade from the Beijing University of Technology in 1985 and obtained the professional and technological qualification of International Business Engineer of the PRC Mr. Yue has over 30 years' experience in international trade and corporate management. He was appointed the managing director of Company on 3 January 2018.

MR. TIAN YUE

Born in October 1963, is the chairman and an executive director of China Logistics Warehouses (Holdings) Co., Ltd., a subsidiary of the Company. Mr. Tian graduated from Northwestern Polytechnical University with a Bachelor's degree in Industry Electrification. Mr. Tian has extensive experience in corporate management, commercial property operation and property leasing management. He was appointed an executive vice president of the Company in July 2015.

MR. JIANG WEI

Born in June 1963, is the chairman and an executive director of China Hui Ying Agribusiness (Holdings) Co., Ltd. ("China Hui Ying Agribusiness"), a subsidiary of the Company. Mr. Jiang graduated from Harbin Railway Technical College majoring in railway engineering. Mr. Jiang has engaged in the fields of railway project construction and automobile trading for an extensive period and has extensive experience in engineering and trading. He was appointed as an executive vice president of the Company in September 2015.

MS. LI XIN

Born in November 1964, executive vice president of the Company. Ms. Li graduated from Renmin University of China with a Bachelor's degree in Industrial Economics and Management, and obtained the professional and technological qualification of Senior Accountant of the PRC. Ms. Li has extensive experience in financial management and internal control assessment. She was appointed an executive vice president of the Company in January 2018.

DIRECTORS AND SENIOR MANAGEMENT

MR. XIONG XIAOSEN

Born in March 1963, executive vice president of the Company, Mr. Xiong obtained an graduate diploma in marine propulsion management from Dalian Maritime University in July 1986 and has obtained a practicing certificate as an engineer. Mr. Xiong has over 30 years of experience in corporate management. He was appointed an executive vice president of the Company in January 2018.

MR. ZHANG XUDONG

Born in August 1970, is the chairman and an executive director of China Cold China Industry Investments (Group) Limited, a subsidiary of the Company, Mr. Zhang obtained a graduate diploma in international trade and economics and a bachelor's degree of economics from Beihang University of Aeronautics and Astronautics (BUAA) and a MBA from Newcastle Business School of Northumbria University, the United Kingdom. Mr. Zhang has over 25 year's in corporate management who obtained a series of senior management positions in fortune global 500 and China 500 enterprises. Mr. Zhang is the managing director of Tianjin Zhongyu Properties Co. Ltd. ("Tianjin Zhongyu"), a director of Qingdao Jingchangshun Food Co., Ltd ("Qingdao Jingchangshun"), and Beijing Dongcheng District History City Conservation and Management Group（北京東城區歷史文化名城保護管理集團）. He was appointed an executive vice president of the Company in January 2018.

MR. XIONG PINGFANG

Born in November 1968, is the president and an executive director of China Logistics, Mr. Xiong obtained a graduate diploma in trade and economics from the Jiangxi University of Finance and Economics in July 1991. In 1998, he studied securities and finance at the Renmin University of China and obtained the professional and technological qualification of certified public accountant of the PRC. Mr. Xiong has over 24 year's of experience in corporate financial management, securities and finance and corporate management. He was appointed a senior vice president of the Company in July 2015.

MS. LIN WENTING

Born in January 1972, is the chairlady of the in-house supervisory committee. Ms. Lin obtained a graduate diploma in investment and economics from the Renmin University of China in 1996 and the practicing qualification for registered cost engineer. Ms. Lin has over 23 years' of experience in costing and cost management of real estate development projects. Ms. Lin was appointed a senior vice president of the Company in September 2015.

MR. CHANG KAM HO

Born in November 1986, financial controller of the Company, Mr. Chang graduated from the Hong Kong Polytechnic University with a Bachelor of Business Administration (Hons) Major in Accountancy & Minor in Financial Services. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chang has over 8 years of experience in auditing and accounting, he joined the Group in August 2017.

MR. REN LIN

Born in September 1981, is the general manager of China Hui Ying Agribusiness. Mr. Ren graduated from the PLA Military Institute of Engineering with a diploma and a Bachelor's degree in Computer Science and Technology. Mr. Ren has extensive corporate management business. Between 2012 and 2018, he served as associate general manager of Beijing Inland Port International Logistics Co., Limited, an executive director and vice president of China Logistics, a director and vice president of Beijing Inland Port Co., Limited, the chairman and general manager of Tianjin Transwell International Logistics Co., Limited, the chairman and general manager of Transwealth Logistics (Tianjin) Co., Limited. Mr. Ren was appointed senior vice president of the Company in October 2018.

REPORT OF THE DIRECTORS

The Board presents its report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 1 to the financial statements. The Group is principally engaged in real estate including high-end and modern general warehouse, cold chain logistics warehouse, specialised wholesale market, industrial property, commercial property, primary land development. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 71 to 171. The Board does not recommend the payment of any dividend for the year.

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 on page 5 of this Annual Report. The financial risk management objectives and policies of the Group can be found in the note 49 to the financial statements. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2018 are provided in the note 50 to the financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the management discussion and analysis on pages 6 to 26. In addition, discussions on the Group's environmental policies, relationship with its key stakeholders, key risks and uncertainties and compliance with relevant laws and regulations which have a significant impact on the group are contained in the Report of The Directors on pages 32 to 52 of this Annual Report.

ENVIRONMENTAL POLICY

The Group believes that sustainable development is an integral part of our business. We aim at creating long-term values for our stakeholders and contributing to the society by carrying out our business in a socially responsible way. The Group is committed to support the environmental sustainability and comply with PRC national, provincial and municipal governments' environmental protection laws and regulations. These include regulations on air pollution and discharge of waste and water into the environment. The Company is also dedicated to promote energy conservation and responding proactively to climatic changes, so as to facilitate efficient use of energy by taking several measures including constantly carries out internal recycling measures in terms of its consumables and implementing energy-saving policies to reduce electricity consumption, in order to lessen the impact on environment from operating activities to achieve the target of sustainable development.

Please refer to the environmental, social and governance Report issued separately for further information on the work done and efforts made by the Company on environmental protection, legal compliance and other aspects for the sustainable growth and development of the business of the Group.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulation by our Group that has a significant impact on the business and operations of our Group.

REPORT OF THE DIRECTORS

RELATIONSHIPS WITH STAKEHOLDERS

The Group recognises that our employees, customers, suppliers and business partners are keys to its sustainable development. The Group is committed to establish a close and caring relationship with its employees, provides competitive remuneration package to attract and motive the employees, and regularly reviews the remuneration package in order to make necessary adjustments to conform to the market standard. The selection of major suppliers or contractors is conducted through procurement assessment or tendering process and regularly reviews the procurement and tendering procedures to ensure that the processes are conducted in an open and fair manner. The Group is committed to provide quality of service to satisfy needs and requirements of our customers and enhance cooperation with its business partners by ongoing communication in a proactive and effective manner.

KEY RISKS AND UNCERTAINTIES

The Group is engaged in the logistics warehouse, specialised wholesale market, cold chain logistics warehouse, industrial property and commercial property businesses and the Group primarily leases its properties to customers including logistic companies, companies with significant storage requirements and foreign manufacturer.

The Group's businesses and prospects are in turn affected by the activity levels of domestic consumption, cross border trading and manufacturing activities. The operation of commercial properties is also sensitive to overall economic development and domestic consumption. China has experienced rapid growth in recent years, which has contributed to the strong demand for warehouse facilities and commercial and industrial properties. Any adverse economic developments, in particular in China, as a result of a global economic slowdown or otherwise, could lead to a general decline in domestic consumption and a slowdown in international trade, which could have a significant impact on the customers' businesses and affect the demand for warehouse facilities.

The Group cannot assure that there will continue to be growing demand for warehouse facilities and commercial and industrial properties in China. If the demand does not continue to grow or grows more slowly than expected, the Group's business, financial condition and results of operations may be materially and adversely affected.

The Group established its first overseas presence by making investments into a primary land development project in Cambodia. Overseas business may be affected by the changes in, and the instability of, international economic and political conditions as well as the regional conditions of the jurisdictions where it operates. The political and economic conditions in such regions are often subject to instability, in particular where political and economic conditions can often be volatile and unstable in Cambodia. As a result of the Group's overseas operation, it is exposed to the risks associated with expanding and conducting business in foreign countries and regions.

The Group faces foreign exchange and conversion risks, and fluctuations in Renminbi may adversely affect the Group's operations and financial results. The value of Renminbi is subject to changes in the PRC government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. The Group conducts most of its business in the PRC, and a large part of its operating cash flows is in Renminbi. Accordingly, any depreciation in Renminbi relative to the US dollar will increase the cost to the Group of servicing its payment obligations and could have an adverse effect on the Group's financial position.

REPORT OF THE DIRECTORS

KEY RISKS AND UNCERTAINTIES (continued)

The Group has significant debt obligations under bonds and bank loans borrowed to finance project costs. As at 31 December 2018, the Group had total bonds and bank borrowing of approximately HK$7.76 billion and our gearing ratio (total debt to equity ratio) was 118%. All existing borrowings (except for the bonds) are outstanding on variable interest rate terms under which interest rates will be adjusted according to market movements in interest rates. It has not been the Group's policy to hedge against movements in interest rates. Any significant increase in interest rates could have a significant adverse effect on our Group's earnings. The Group's interest rate risk mainly relates to the cash at bank and the long term bank loan. A change in interest rates at the balance sheet date would have effect on the amount of the interest costs and income.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the published annual reports and audited financial statements of the Company for the year ended 31 December 2018 are set out on page 176. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 172 to 175.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 38 and 39 to the financial statements.

DEBENTURE ISSUED

As at 31 December 2018, the outstanding principle amounts of bonds guaranteed by the Company and issued by wholly-owned subsidiaries of the Company was US$550,000,000, which included a bond of US$300,000,000 with maturity date in March 2020 and fixed interest rate at 4.375% per annum and a bond of US$250,000,000 with maturity date in August 2020 and fixed interest rate 9.0% per annum.

The reason for issuance of the bond is used for the Group's general corporate purposes. Details of the bonds are included in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in notes 51 and 40 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves (including contributed surplus, financial assets revaluation reserve and retained profits) available for distribution to shareholders amounted to HK$68,699,000.

Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus account in the amount of HK$423,880,000 as at 31 December 2018, is available for distribution to the shareholders of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of this reserve if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In addition, the Company's share premium account, in the amount of HK$1,762,147,000, as at 31 December 2018 can be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 26.41% of the Group's revenue for the year and revenue from the largest customer accounted for 16.23% of the Group's revenue for the year. Purchase from the Group's five largest suppliers accounted for 47.01% of the Group's total purchases for the year.

During the year, none of the Directors of the Company, or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive directors:

Mr. Qian Xu (Chairman)
Mr. Siu Kin Wai (Chief Executive Officer)
Mr. Zhao Jiansuo
Mr. Li Shuping
Mr. Dong Qilin
Mr. Li Changfeng
Mr. Cheng Ching Fu (Chief Financial Officer)
Mr. Yu Luning
Mr. Ang Renyi
Mr. Ng Kin Nam (appointed on 10 December 2018)
Mr. Hu Yebi (resigned on 6 November 2018)

Independent non-executive directors ("INEDs"):

Mr. Goh Gen Cheung
Mr. Zhu Wuxiang
Mr. James Chan
Mr. Song Lishui
Mr. Xie Ming

In accordance with bye-law 111(A) and 114 of the Company's bye-laws, Mr. Siu Kin Wai, Mr. Zhao Jiansuo, Mr. Li Shuping, Mr. Goh Gen Cheung, Mr. Song Lishui and Mr. Ng Kin Nam shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received written annual confirmations of independence from all INEDs and as at the date of this report all of them are still considered to be independent.

REPORT OF THE DIRECTORS

BOARD CHANGES AND CHANGES IN DIRECTORS' INFORMATION

Information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out as follows:

Mr. Qian Xu was appointed as the chairman of investment and risk management committee with effect from 3 September 2018.

Mr. Siu Kin Wai was appointed as the vice-chairman of investment and risk management committee with effect from 3 September 2018.

Mr. Dong Qilin, Mr. Li Changfeng and Mr. Cheng Ching Fu were appointed as the member of investment and risk management committee with effect from 3 September 2018.

Mr. Yu Luning, Mr. Zhu Wuxiang and Mr. Ang Renyi resigned as the member of investment and risk management committee with effect from 3 September 2018.

Mr. Hu Yebi resigned as an executive director and vice-chairman of the Company and vice-chairman of investment and risk management committee with effect from 6 November 2018.

Mr. Ng Kin Nam was appointed as an executive director of the Company with effect from 10 December 2018.

CHANGES IN DIRECTORS' INFORMATION

Mr. Siu Kin Wai has resigned as the chief executive officer of MillenMin Ventures Inc. (TSX stock code: MVM) with effect form 30 April 2018 and Mr. Siu has resigned as the chief financial officer of Beijing Holdings Limited with effect from 30 June 2018.

Mr. Cheng Ching Fu was appointed as an executive director, chief financial officer and company secretary of MVM with effect from 30 April 2018.

Mr. Qian Xu has resigned as an executive director of Beijing Enterprises Medical and Health Industry Group Limited (SEHK Stock Code: 2389) with effect from 27 February 2019.

Mr. Zhu was appointed as an independent non-executive director of Visual China Group Co., Ltd., a company listed on the Shenzhen Stock Exchange, the PRC (Listing Corporation code: 000681) with effect form 24 October 2018.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and senior management of the Company are set out on pages 27 to 31 of the annual report.

DIRECTORS' SERVICE CONTRACTS

All Directors (including executive Directors and INEDs) had entered into letters of appointment with the Company for a term of three years but are subject to retirement by rotation and re-election in accordance with the Bye-Laws. No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings, other emoluments of the Directors are determined by the Company's board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's directors' remuneration are set out on pages 118 to 121 of this annual report.

Further details of the Company's remuneration committee are set out in the corporate governance report on page 59 of this annual report.

EMOLUMENT POLICY

The emolument of each of the Directors and the employees of the Group is on the basis of their merit, qualification, competence and experience in the industry, the profitability of the Group as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Directors and employees also participate in bonus arrangements which are determined in accordance with the performance of the Group and the individual's performance.

The Company has adopted a share option scheme as incentives to Directors and eligible persons, details of the scheme is set out in note 39 to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for the transactions as disclosed in the sections headed "Related Party Transactions" and "Connected Transactions and Continuing Connected Transactions "below, there were no other transactions, arrangements or contracts of significance to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, Mr. Qian Xu, Zhao Jiansuo and Li Shuping, being the Directors, were also directors of BE Real Estate, which engages in business of property investment and development, and they were considered to have interests in a business which competes or is likely to compete, directly or indirectly, with the business of the Group.

As the Board is independent of the board of the aforesaid company and maintains five independent non-executive Directors, the Group operates its businesses independently of, and at arm's length from, the business of the aforesaid company.

REPORT OF THE DIRECTORS

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

At 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long position in the ordinary shares of the Company:

	Number of ordinary shares					
Name of Directors	**Personal Interest**	**Family Interest**	**Corporate interest**	**Other interest**	**Total**	**Approximate percentage of the Company's issued share capital** *(Note 2)*
Mr. Yu Luning	9,690,000	0	0	0	9,690,000	0.139%
Mr. Ng Kin Nam	98,445,200	9,729,000	42,491,800 *(Note 1)*	0	150,666,000	2.162%

Notes:

1. 42,491,800 ordinary shares of HK$0.10 each in the share capital of the Company ("Shares") as at 31 December 2018 are held by Jade Investment Limited which is beneficially owned by Mr. Ng Kin Nam and the spouse of Mr. Ng Kin Nam.

2. The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2018 of 6,969,331,680 Shares

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Long position in underlying shares of the Company:

The interests of the Directors and chief executives in the share options of the Company are separately disclosed in the section "Share option scheme" below.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

SHARE OPTION SCHEME

On 18 March 2010, the Company adopted a share option scheme (the "Scheme") and, unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group's business; to provide additional incentives to employees, officers and Directors, contractors, suppliers, advisors and consultants who have contribution to the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to shareholders of the Company. The Directors of the Company may, at their discretion, invite employees (including executive Directors) and non-executive Directors of the Company and any of its subsidiaries, to take up options to subscribe for ordinary shares of the Company at HK$1 per grant of options.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of ordinary shares of the Company in issue at any time. The total number of ordinary shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to any one person must not exceed 1% of the total number of ordinary shares of the Company in issue.

An option granted under the Scheme is personal to the grantee and shall not be assignable or transferable.

The period during which an option granted under the Scheme may be exercised will be determined by the Board at their discretion, save that no option may be exercised later than 10 years after the grant date. No option may be granted more than 10 years after the date of approval of the Scheme.

The exercise price of the share options is determinable by the Board, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Company's ordinary shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of an ordinary share of the Company. The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The exercise price of the share options is subject to adjustment in case of right or bonus issues, or other similar changes in the Company's share capital. Further details of the Scheme are disclosed in note 39 to the financial statements.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

The following table discloses movements in the Company's share options outstanding during the year ended 31 December 2018 as follows:

	Number of share options							
Name or category of participant	At 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2018	Date of grant of share options	Exercise period of share options	Exercise price of share options
								HK$ per share
		(Note 2)	*(Note 2)*			*(Note 1)*		*(Note 1)*
Directors:								
Mr. Qian Xu	6,000,000	–	–	–	6,000,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	6,000,000	–	–	–	6,000,000	1-Jun-12	1-Jun-12 to 30-May-22	0.410
	10,000,000	–	–	–	10,000,000	24-May-13	24-May-13 to 23-May-23	0.574
	9,000,000	–	–	–	9,000,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	4,000,000	–	–	–	4,000,000	28-Aug-14	28-Aug-14 to 27-Aug-24	0.750
	5,000,000	–	–	–	5,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	40,000,000	–	–	–	40,000,000			
Mr. Li Shuping	1,500,000	–	–	–	1,500,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	2,500,000	–	–	–	2,500,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	4,000,000	–	–	–	4,000,000			
Mr. Zhao Jiansuo	1,500,000	–	–	–	1,500,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	3,200,000	–	–	–	3,200,000	1-Jun-12	1-Jun-12 to 30-May-22	0.410
	4,700,000	–	–	–	4,700,000			
Mr. Siu Kin Wai	5,000,000	–	–	–	5,000,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	5,000,000	–	–	–	5,000,000	1-Jun-12	1-Jun-12 to 30-May-22	0.410
	6,000,000	–	–	–	6,000,000	24-May-13	24-May-13 to 23-May-23	0.574
	5,000,000	–	–	–	5,000,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	3,000,000	–	–	–	3,000,000	28-Aug-14	28-Aug-14 to 27-Aug-24	0.750
	4,000,000	–	–	–	4,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	28,000,000	–	–	–	28,000,000			
Mr. Dong Qilin	3,000,000	–	–	–	3,000,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	5,000,000	–	–	–	5,000,000	1-Jun-12	1-Jun-12 to 30-May-22	0.410
	3,300,000	–	–	–	3,300,000	24-May-13	24-May-13 to 23-May-23	0.574
	3,500,000	–	–	–	3,500,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	2,000,000	–	–	–	2,000,000	28-Aug-14	28-Aug-14 to 27-Aug-24	0.750
	2,500,000	–	–	–	2,500,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	19,300,000	–	–	–	19,300,000			
Mr. Li Changfeng	2,500,000	–	–	–	2,500,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	5,000,000	–	–	–	5,000,000	1-Jun-12	1-Jun-12 to 30-May-22	0.410
	3,300,000	–	–	–	3,300,000	24-May-13	24-May-13 to 23-May-23	0.574
	3,500,000	–	–	–	3,500,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	2,000,000	–	–	–	2,000,000	28-Aug-14	28-Aug-14 to 27-Aug-24	0.750
	2,500,000	–	–	–	2,500,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	18,800,000	–	–	–	18,800,000			

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

	Number of share options							
Name or category of participant	At 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2018	Date of grant of share options	Exercise period of share options	Exercise price of share options
								HK$ per share
		(Note 2)	*(Note 2)*			*(Note 1)*		*(Note 1)*
Mr. Cheng Ching Fu	1,000,000	–	–	–	1,000,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	3,000,000	–	–	–	3,000,000	1-Jun-12	1-Jun-12 to 30-May-22	0.410
	2,000,000	–	–	–	2,000,000	24-May-13	24-May-13 to 23-May-23	0.574
	2,500,000	–	–	–	2,500,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	1,000,000	–	–	–	1,000,000	28-Aug-14	28-Aug-14 to 27-Aug-24	0.750
	2,000,000	–	–	–	2,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	11,500,000	–	–	–	11,500,000			
Mr. Yu Luning	5,000,000	–	–	–	5,000,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	5,000,000	–	–	–	5,000,000	1-Jun-12	1-Jun-12 to 30-May-22	0.410
	4,000,000	–	–	–	4,000,000	24-May-13	24-May-13 to 23-May-23	0.574
	4,000,000	–	–	–	4,000,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	1,000,000	–	–	–	1,000,000	28-Aug-14	28-Aug-14 to 27-Aug-24	0.750
	3,000,000	–	–	–	3,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	22,000,000	–	–	–	22,000,000			
Mr. Ang Renyi	4,000,000	–	–	–	4,000,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	1,000,000	–	–	–	1,000,000	28-Aug-14	28-Aug-14 to 27-Aug-24	0.750
	3,000,000	–	–	–	3,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	8,000,000	–	–	–	8,000,000			
Mr. Goh Gen Cheung	2,000,000	–	–	–	2,000,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	1,837,700	–	–	–	1,837,700	1-Jun-12	1-Jun-12 to 30-May-22	0.410
	2,000,000	–	–	–	2,000,000	24-May-13	24-May-13 to 23-May-23	0.574
	1,500,000	–	–	–	1,500,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	1,000,000	–	–	–	1,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	8,337,700	–	–	–	8,337,700			
Mr. Zhu Wuxiang	2,000,000	–	–	–	2,000,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	2,000,000	–	–	–	2,000,000	24-May-13	24-May-13 to 23-May-23	0.574
	1,500,000	–	–	–	1,500,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	1,000,000	–	–	–	1,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	6,500,000	–	–	–	6,500,000			
Mr. James Chan	2,000,000	–	–	–	2,000,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	2,000,000	–	–	–	2,000,000	24-May-13	24-May-13 to 23-May-23	0.574
	1,500,000	–	–	–	1,500,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	1,000,000	–	–	–	1,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	6,500,000	–	–	–	6,500,000			

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

	Number of share options							
Name or category of participant	At 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2018	Date of grant of share options	Exercise period of share options	Exercise price of share options
								HK$ per share
		(Note 2)	*(Note 2)*			*(Note 1)*		*(Note 1)*
Mr. Song Lishui	1,000,000	–	–	–	1,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
Other employees and consultants in aggregate:	140,500,000	–	–	–	140,500,000	28-Oct-11	28-Oct-11 to 27-Oct-21	0.465
	243,375,400	–	–	–	243,375,400	1-Jun-12	1-Jun-12 to 30-May-22	0.410
	117,400,000	–	–	–	117,400,000	24-May-13	24-May-13 to 23-May-23	0.574
	147,200,000	–	–	–	147,200,000	31-Mar-14	31-Mar-14 to 30-Mar-24	0.940
	24,000,000	–	–	–	24,000,000	28-Aug-14	28-Aug-14 to 27-Aug-24	0.750
	55,000,000	–	–	–	55,000,000	8-Apr-15	8-Apr-15 to 7-Apr-25	0.720
	727,475,400	–	–	–	727,475,400			
	906,113,100	–	–	–	906,113,100			

Notes:

1. The share options have no vesting period and the exercise price is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

2. Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the scheme during the year ended 31 December 2018.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' and Chief Executives' interests and short positions in shares and underlying shares" and "Share option scheme", at no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouse or minor children under the age of 18, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

At 31 December 2018, so far as was known to the Directors or chief executive of the following persons (not being Directors or chief executive of the Company) had, an interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares and underlying shares of the Company:

		Number of shares held, capacity and nature of interest		Number of underlying shares held, capacity and nature of interest			
Name	Notes	**Directly beneficially owned**	**Through a controlled corporation**	**Directly beneficially owned**	**Through a controlled corporation**	**Total**	**Approximate percentage of the Company's issued share capital** (%)
Brilliant Bright Holdings Limited	(a)	1,557,792,500	–	–	–	1,557,792,500	22.35%
Beijing Enterprises Real Estate (HK) Limited	(b)	2,504,784,407	1,557,792,500	–	–	4,062,576,907	58.29%
北京北控置業集團有限公司 (Beijing Enterprises Real-Estate Group Limited)	(c)	–	4,062,576,907	–	–	4,062,576,907	58.29%
Illumination Holdings Limited	(d)	87,451,458	–	–	–	87,451,458	1.25%
Beijing Holdings Limited	(e)	487,166,195	87,451,458	–	–	574,617,653	8.24%
Beijing Enterprises Group Company Limited	(f)	–	4,637,194,560	–	–	4,637,194,560	66.53%
Thular Limited	(g)	327,196,000	–	–	–	327,196,000	4.69%
Kerry Holdings Limited	(g)	–	327,196,000	–	–	327,196,000	4.69%
Kerry Group Limited	(g)	–	327,196,000	–	–	327,196,000	4.69%

REPORT OF THE DIRECTORS

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

Notes:

(a) Brilliant Bright Holding Limited ("Brilliant Bright") holds 1,557,792,500 Shares.

(b) Beijing Enterprises Real Estate (HK) Limited ("BEREHK") (i) holds 2,504,784,407 Shares; and (ii) is deemed to be interested in the 1,557,792,500 Shares of Brilliant Bright by virtue of its controlling interests in its wholly-owned subsidiary, Brilliant Bright.

(c) BEREHK is a wholly-owned subsidiary of BE Real Estate. BE Real Estate is deemed to be interested in the Shares which BEREHK is interested in.

(d) Illumination Holdings Limited ("Illumination") holds 87,451,458 Shares.

(e) Beijing Holdings Limited ("BHL") (i) holds 487,166,195 shares; and (ii) is deemed to be interested in the 87,451,458 Shares of Illumination by virtue of its controlling interests in its wholly-owned subsidiary, Illumination. BHL is deemed to be interested in the Shares which Illumination is interested in.

(f) BE Real Estate and BHL are wholly-owned subsidiaries of BE Group. BE Group is deemed to be interested in the Shares which BE Real Estate and BHL are interested in.

(g) Thular Limited ("Thular") is the beneficial owner of 327,196,000 Shares. As Thular is wholly owned by Kerry Holdings Limited ("KHL") which is in turn wholly owned by Kerry Group Limited ("KGL"), KHL and KGL are also deemed to be interested in the Shares held by Thular.

Save as disclosed above, as at 31 December 2018, no person whose interests had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

The Group entered into certain activities with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to the activities in the ordinary course of the Group's business and were negotiated on normal commercial terms and at arm's length basis. Certain transactions set out in note 46 to the financial statements are connected transactions as defined under the Listing Rules and were complied and exempt with the requirements of Chapter 14A of the Listing Rules. The disclosures required by Rule 14A.45 of the Listing Rules are provided in the paragraph headed "Connected Transactions" as identified below.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transactions

The Group did not carry out any connected transaction during the year.

Continuing connected transactions

The Group had the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year:

(a) *Supplement Agreement to the Deposit Services Master Agreement*

On 29 June 2015, the Company entered into the deposit services master agreement with Beijing Enterprises Group Finance Co., Ltd. ("BG Finance"), pursuant to which the Group may, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time. The deposit services master agreement is therefore expected not only to provide the Group with a new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. The Group also expects to be in a better position to manage the security of its funds since BG Finance is not considered to be exposed to any significant capital risk. The annual cap for each of the three years ending 31 December 2015, 2016 and 2017 is HK$250 million.

On 28 April 2017, the Company and BG Finance entered into the supplemental agreement to the deposit services master agreement (the "Supplemental Agreement") to revise the annual cap for each of the three years ended/ending 31 December 2017, 2018 and 2019 to HK$650 million (the "Revised Annual Cap").

The rate at which interest will accrue on any deposit placed by the Group with BG Finance under the Deposit Services Master Agreement will not be lower than the following:

i. the minimum interest rate prescribed by the People's Bank of China for the same type of deposits at the same period;

ii. the interest rates offered by commercial banks in Hong Kong and the PRC to the Group for the same type of deposits at the same period; and

iii. the interest rates offered by BG Finance to other members of Beijing Enterprises Group Company Limited for the same type of deposits.

Each of BE Group and Beijing Enterprises Holdings Limited ("BEHL") is a connected person of the Company under the Listing Rules by virtue of each being a substantial shareholder of the Company. As each of BE Group and BEHL beneficially owns not less than 30% equity interest in BG Finance, BG Finance is an associate of each of BE Group and BEHL. Therefore, the entering into of the Supplemental Agreement constituted continuing connected transactions of the Company which was subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The above continuing connected transaction was carried out within the Revised Annual Cap. Details of which can be found on the websites of the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION (continued)

Continuing connected transactions (continued)

(b) *Entrusted Operation Management and Marketing Agreement*

On 29 December 2017, Tianjin Zhongyu entered into the new entrusted operation management and marketing agreement with 天津中盈冷鏈物流有限公司 ("Tianjin Zhongying"), pursuant to which the provision of operation management services by Tianjin Zhongying to Tianjin Zhongyu in respect of the property, including two 5-storey cold warehouses with mechanical facilities compartment, of a total land area of 65,454 m^2 and the provision of marketing services by Tianjin Zhongying to Tianjin Zhongyu to promote the business and brand name of Tianjin Zhongyu. The annual cap for the continuing connected transactions contemplated under the new entrusted operational management and marketing agreement is RMB 5,236,000 which is the annual management fee and the maximum amount of the marketing fee payable. Tianjin Zhongyu is held as to 60% indirectly by the Company, 20% by Zhang Junqing and 20% by Zhang Guoqing. Tianjin Zhongying is owned by two shareholders, namely, Zhang Junqing (55% equity interest) and Zhang Guoqing (45% equity interest). Therefore, Tianjin Zhongying is an associate of Zhang Junqing and Zhang Guoqing and is a connected person of the Company. Accordingly, the transactions contemplated under the new entrusted operation management and marketing agreement constitute continuing connected transactions of the Company which is subject to the announcement, reporting and annual review requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The above continuing connected transaction was carried out within the annual cap. Details of which can be found on the websites of the Company and Stock Exchange.

(c) *Tenancy Agreements and Property Management Services Agreements*

During the year ended 31 December 2018, the following transactions between the connected person(s) (as defined in the Listing Rules) and the Tianjin Transwell International Logistics Co., Ltd. ("WSL Logistics"), a non-wholly owned subsidiary of the Company, as landlord, has been entered into the following tenancy agreements which are required to be disclosed in this annual report:

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION (continued)

Continuing connected transactions (continued)

(c) *(continued)*

Agreement Date	Tenant	Premises	Approximate area	Term	Rental income for the year ended 31 December 2018	Annual Cap
31 July 2017	天津萬士隆集團有限公司 ("Tianjin WSL")	Office at Zone E1-101 of the Customs Warehouse, Tianjin, PRC	339.29 square metres	1 August 2017 to 31 July 2018	RMB123,841	RMB222,914
31 July 2018	杰特(天津)國際貿易有限公司 ("Jett Tianjin")	Office at Zone E1-101 of the Customs Warehouse, Tianjin, PRC	339.29 square metres	1 August 2018 to 31 December 2019	RMB88,458	RMB234,059
17 November 2017	天津萬士隆貨運有限公司 ("Tianjin WSL Huoyun")	Office at Zone C 2/F-C100 of the Customs Warehouse, Tianjin, PRC	202.07 square metres	1 November 2017 to 31 July 2019	RMB126,438	RMB146,368
1 August 2016	Tianjin WSL Huoyun	Warehouse at Zone B6 of the Customs Warehouse, Tianjin, PRC	587.22 square metres	1 August 2016 to 31 July 2019	RMB343,745	RMB378,087
31 October 2017	Tianjin WSL Huoyun	Warehouse at Zone C201-202 of the Customs Warehouse, Tianjin, PRC	124.55 square metres	1 November 2017 to 31 October 2018	RMB71,438	RMB81,829
1 August 2016	天津萬士隆文檔管理服務有限公司 ("Tianjin WSL File Management")	Warehouse at Zone A16 of the Customs Warehouse, Tianjin, PRC	601.5 square metres	1 August 2016 to 31 July 2019	RMB189,860[1]	RMB242,051
1 August 2016	Tianjin WSL File Management	Office at Zone E2-101 of the Customs Warehouse, Tianjin, PRC	85.59 square metres	1 August 2016 to 31 July 2019	RMB53,555	RMB61,996
27 January 2017	Tianjin WSL File Management	Warehouse at Zone A17 of the Customs Warehouse, Tianjin, PRC	601.5 square metres	1 February 2017 to 31 January 2020	RMB189,860[1]	RMB242,051
31 October 2017	Jett Tianjin	Warehouse at Zone A13 of the Customs Warehouse, Tianjin, PRC	595.66 square metres	1 November 2017 to 31 May 2020	RMB188,017[1]	RMB239,701
29 December 2017	Jett Tianjin	Office at Zone E2-101-1 and E2-102 of the Customs Warehouse, Tianjin, PRC	205.27 square metres	1 January 2018 to 31 December 2018	RMB128,440	RMB134,862
29 December 2017	Tianjin WSL File Management	Office at Zone E2-101-2 of the Customs Warehouse, Tianjin, PRC	48.43 square metres	1 January 2018 to 31 December 2018	RMB30,303	RMB31,818
10 May 2018	Tianjin WSL File Management	Warehouse at Zone A12 of the Customs Warehouse, Tianjin, PRC	595.66 square metres	10 May 2018 to 30 April 2021	RMB112,810[1]	RMB263,671
31 August 2018	Tianjin WSL File Management	Warehouse at Zone A10-11 of the Customs Warehouse, Tianjin, PRC	1,191.31square metres	1 September 2018 to 31 August 2021	RMB67,274[1]	RMB527,338

1. The tenancy agreements were terminated with Tianjin WSL File Management and Jett Tianjin and then the new tenancy agreement signed with Tianjin WSL File Management to take over the leases effective on 1 December 2018.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION (continued)

Continuing connected transactions (continued)

(c) *(continued)*

On 1 August 2016, WSL Logistics and Tianjin WSL Estate Management entered into the estate management services agreement renewal in respect of the property comprising warehouses and offices located at No. 19, Third Avenue, Tianjin Airport International Logistics Zone, the PRC. The annual cap for the continuing connected transaction under the estate management services agreement renewal shall be RMB400,000. During the year ended 31 December 2018, the management fee was RMB275,000.

On 17 November 2017, Transwealth Logistics and Tianjin WSL Estate Management entered into the Phase I property management services agreement renewal in respect of the property comprising warehouses and office located at No. 1 Road, Second Avenue, Tianjin Airport International Logistics Zone, the PRC. The annual cap for the continuing connected transaction under the property management services agreement renewal shall be RMB200,000. During the year ended 31 December 2018, the management fee expense was RMB183,333.

On 30 November 2016, Transwealth Logistics and Tianjin WSL Estate Management entered into the phase II property management services agreement in respect of the property comprising warehouses and offices located at No. 1 Road, Second Avenue, Tianjin Airport International Logistics Zone, the PRC. The annual cap for the continuing connected transaction under the estate management services agreement shall be RMB300,000. During the year ended 31 December 2018, the management fee expense was RMB275,000.

The conclusion of the above tenancy agreements and property management services agreements constitute continuing connected transactions of the Company which is subject to the announcement, reporting and annual review requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The above continuing connected transaction was carried out within the annual cap.

Details of the tenancy agreements and estate management services agreements can be found on the websites of the Company and the Stock Exchange.

The Directors of the Company confirmed that the Company had complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The INEDs of the Company had reviewed these continuing connected transactions and confirmed that these continuing connected transactions were entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of these continuing connected transactions in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

The bye-laws provides that the Directors shall be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts. Such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

DONATIONS

The Group's charitable donations during the year approximately amounted to HK$60,000.

EQUITY-LINKED AGREEMENTS

As of 31 December 2018, other than the share option scheme as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company.

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

As at the date of this report, details of the agreements (the "Agreement(s)") with covenants relating to specific performance the controlling shareholder which constitute disclosure obligation pursuant to Rules 13.18 and 13.21 of the Listing Rules are as follows:

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount	Final Maturity	Specific performance obligations
2 March 2017	Subscription agreement for issuance of bonds	USD300 million	March 2020	Note 1
11 December 2017	Team loan facility with a bank	USD200 million	December 2020	Note 1
7 June 2018	Revolving loan facility with a bank	HK$200 million	–	Note 1
10 August 2018	Subscription agreement for issuance of bonds	USD250 million	August 2020	Note 1
21 February 2019	Revolving loan facility with a bank	HK$350 million	February 2020	Note 1

Notes:

1. The Company undertakes to the bank(s) that the borrower (which is a subsidiary of the Company) will procure BE Group to continue to beneficially own (directly or indirectly) at least 40% of the entire issued share capital of the Company. If the borrower fails to perform or comply with this, the bank is entitled to require, by written notice to the Company, to cure such default within the time specified by the banks. If the Company does not remedy such failure to the bank's satisfaction, the bank is entitled to (a) declare the loan under the Agreement(s), accrued interest and all other sums payable under the Agreement(s) immediately due and payable; and (b) declare the loan facility terminated whereupon the obligation of the bank to make any advance under the loan facility shall immediately cease.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this announcement, the Company has maintained a sufficient public float as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events occurring after the reporting period of the Group are set out in note 50 to the financial statements.

DISCLOSURES PURSUANT TO RULES 13.22 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.22 of the Listing Rules, the following disclosure is included in respect of financial assistance given to affiliated company. As at the latest practicable date (i.e. 31 December 2018), the Group has provided to affiliated company financial assistance and guarantees amounting, in aggregate, to approximately RMB1,560 million which exceeded 8% of the assets ratio of the Company, as defined under Rule 14.07(1) of the Listing Rules. Further details of such financial assistance are disclosed in the announcements of the Company dated 12 April 2017. The combined statement of financial position of the affiliated company as at 31 December 2018 and the Group's attributable interest therein are as follows:

	Combined statement of financial position	**The Group's attributable interest**
	HK$'000	HK$'000
Non-current assets	3,325,971	2,527,738
Current assets	499,701	379,773
Non current liabilities	(1,851,835)	(1,407,395)
Current liabilities	(329,195)	(250,188)
Net assets	1,644,642	1,249,928
Issued capital	1,317,508	
Reserves	327,134	
Equity	1,644,642	

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is committed to maintaining the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. In the opinion of the Board of the Company, the Company had complied with all code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules during the financial year ended 31 December 2018 and up to the date of publication of this annual report, except as disclosed in the Corporate Governance Report.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SHARE DEALING

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of securities transactions of the directors. Having made specific enquiry of all directors, the Company has confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding director's securities transaction during the year ended 31 December 2018.

AUDITOR

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

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2018 were approved by the Board on 22 March 2019.

ON BEHALF OF THE BOARD
Qian Xu
Chairman

Hong Kong
22 March 2019

CORPORATE GOVERNANCE REPORT

The Company strongly committed to maintain a quality corporate governance so to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhancement of shareholders' value.

In the opinion of the Board, the Company had complied with all code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year, except for certain deviations disclosed herein below.

BOARD OF DIRECTORS

Composition and role

The Board currently consists of fifteen directors: comprising ten executive Directors, namely, Mr. Qian Xu, Mr. Siu Kin Wai, Mr. Zhao Jiansuo, Mr. Li Shuping, Mr. Dong Qilin, Mr. Li Changfeng, Mr. Cheng Ching Fu, Mr. Yu Luning, Mr. Ang Renyi and Mr. Ng Kin Nam; and five independent non-executive Directors ("INEDs"), namely, Mr. Goh Gen Cheung, Mr. Zhu Wuxiang, Mr. James Chan, Mr. Song Lishui and Mr. Xie Ming. The principal function of the Board are to formulate corporate strategy and business development and to ensure a high standard of corporate governance. The Board met regularly during the year to approve acquisitions and connected transactions, and to monitor the financial performance of the Group in pursuit of its strategic goals. Control and day to day operation of the Company is delegated to the chief executive officer, chief financial officer and the management of the Company. There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship. Newly appointed Director would receive a comprehensive induction package covering the statutory and regulatory obligations of a director of a listed company. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged trainings for Directors in the form of seminar and provision of training materials. Guidance notes and memorandum are issued to Directors where appropriate, to ensure awareness of best corporate governance practices.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

Directors' continuous professional development

According to the records maintained by the Company, the current Directors received the following training in respect of the roles, functions and duties of a director of a listed company in compliance with the requirement of the CG Code contained in Appendix 14 of the Listing Rules on continuous professional development during the year ended 31 December 2018.

Directors	Read materials	Attending seminars/ briefing
Executive directors		
Mr. Qian Xu	✓	
Mr. Siu Kin Wai	✓	✓
Mr. Zhao Jiansuo	✓	
Mr. Li Shuping	✓	
Mr. Dong Qilin	✓	
Mr. Li Changfeng	✓	
Mr. Cheng Ching Fu	✓	✓
Mr. Yu Luning	✓	
Mr. Ang Renyi	✓	✓
Mr. Ng Kin Nam	✓	
Mr. Hu Yebi (resigned on 6 November 2018)	✓	
Independent non executive directors		
Mr. Goh Gen Cheung	✓	✓
Mr. Zhu Wuxiang	✓	
Mr. James Chan	✓	✓
Mr. Song Lishui	✓	
Mr. Xie Ming	✓	

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

Meetings

Attendance records of the Board meetings, meetings of all committees and general meetings of the Company for the year ended 31 December 2018 were set out below:

	Board meeting	Audit committee meeting	Remuneration committee meeting	Nomination committee meeting	General meeting
Number of meetings held	5	2	2	2	1
Name of director		**Number of meetings attended**			
Executive directors					
Mr. Qian Xu	5/5	N/A	N/A	1/2	0/1
Mr. Siu Kin Wai	5/5	N/A	N/A	N/A	1/1
Mr. Zhao Jiansuo	5/5	N/A	N/A	N/A	0/1
Mr. Li Shuping	4/5	N/A	N/A	N/A	0/1
Mr. Dong Qilin	5/5	N/A	N/A	N/A	0/1
Mr. Li Changfeng	5/5	N/A	N/A	N/A	0/1
Mr. Cheng Ching Fu	5/5	N/A	N/A	N/A	1/1
Mr. Yu Luning	5/5	N/A	1/2	1/2	0/1
Mr. Ang Renyi	4/5	N/A	N/A	N/A	0/1
Mr. Ng Kin Nam	1/1	N/A	N/A	N/A	0/1
Mr. Hu Yebi (resigned on 6 November 2018)	2/2	N/A	N/A	N/A	0/1
Independent non-executive directors					
Mr. Goh Gen Cheung	5/5	2/2	2/2	2/2	1/1
Mr. Zhu Wuxiang	5/5	2/2	N/A	N/A	0/1
Mr. James Chan	5/5	2/2	2/2	2/2	0/1
Mr. Song Lishui	5/5	2/2	2/2	2/2	0/1
Mr. Xie Ming	5/5	2/2	2/2	2/2	0/1

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

To improve the performance quality of the Company, the Board approved to adopt the board diversity policy on 30 August 2013. The Board believes that board member diversity can be achieved by considering various factors, including but not limited to gender, age, cultural and educational background, race, professional experience, expertise, knowledge, term of services and other talents. All Board appointments are made with reference to the Company's business models and specific needs from time to time, and candidates will be considered with due regard for the benefits of diversity on the Board if allowed by objective business conditions. The nomination committee will be mainly responsible for identifying suitable and competent candidates for board members, and considering such candidates in light of objective conditions. As a part of the review on the annual performance of the Board, considerations made by the nomination committee will balance the skills and experience as required by business targets of the Company with diversity factors. To achieve board diversity, the nomination committee will discuss and develop measurable objectives from time to time, and propose the above to the Board for adoption and implementation. Generally speaking, selection of candidates by the nomination committee shall be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, race, professional experience, expertise, knowledge and term of services. However, the final decision will depend on the strengths of candidates and their prospective contributions to the Board. The Board may improve one or more diversity perspectives from time to time, and implement the upgraded measurements. The nomination committee will review the policy from time to time, including conducting assessments on the effectiveness of the policy. The nomination committee will also discuss any amendment that may be necessary, and submit amendment proposals to the Board for approval.

NOMINATION POLICY

The Company has adopted nomination policy (the "Nomination Policy") on 15 February 2019. The purpose is to identify and evaluate a candidate for nomination to the Board for appointment or to the Shareholders for election as a Director. The nomination committee of the Company (the "Nomination Committee") shall consider, among others, the following criteria in evaluating and selecting candidates for directorships:

- Reputation for integrity;
- Accomplishment and experience;
- Commitment in respect of available time and relevant interest;
- The Company' board diversity policy that ensures the Board has diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service; and
- In the case of independent non-executive Directors, the independence of the candidate (the independence requirements as set out under any applicable laws, rules and regulations shall have been met).

Each proposed new appointment, election or re-election of a director shall be assessed and/or considered against the criteria and qualifications set out in the Nomination Policy by the Nomination Committee which shall recommend its views to the Board and/or the Shareholders for consideration and determination.

The Board will from time to time review the Nomination Policy and monitor its implementation to ensure its continued effectiveness and compliance with regulatory requirements and good corporate governance practice.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNIFY

The Company has arranged appropriate insurance coverage on directors' and officers' liabilities against possibility of legal action to be taken against its Directors and officers. During the year, no claim was made against the directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the financial year ended 31 December 2018, the chairman and the chief executive officer are held separately by Mr. Qian Xu and Mr. Siu Kin Wai respectively. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board considers that the INEDs can provide independent advices on the Company's business strategies, results and management so as to safeguard the interests of the Company and its shareholders.

All INEDs had entered into letters of appointment with the Company for a term of three years but are subject to retirement by rotation and re-election in accordance with the bye-laws of the Company (the "Bye-Laws").

The Company has received written annual confirmations from all INEDs confirming their independence pursuant to Rules 3.13 of the Listing Rules. The Company considers all INEDs are independent.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the Directors. Having made specific enquiry of all Directors, the Company has confirmed that all Directors have complied with the required standards set out in the Model Code and its code of conduct regarding Director's securities transaction during the year under review.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the directors, the Company has complied with the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2018, except as disclosed below.

Under code provision A.6.7, independent non-executive directors and non-executive directors should attend general meetings to develop a balanced understanding of the views of shareholders. During the year, not all independent non-executive directors attended general meetings of the Company due to other business engagements, which deviates from code provision A.6.7.

Under the code provision E.1.2, the chairman of the board should attend the annual general meeting and invite the chairmen of audit, remuneration, nomination and any other committees (as appropriate) to attend. However, in the annual general meeting held on 15 June 2018 (the "2018 AGM"). our chairman was unable to attend the meeting due to his other business commitments. He appointed Mr. Siu Kin Wai, the executive director of the Company, to chair the meeting on his behalf and chairmen of the audit, remuneration and nomination committees also attended the 2018 AGM. The Company reviews its corporate governance practices from time to time to ensure compliance with the CG Code.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established four board committees to strengthen its functions and corporate governance practices, namely, Audit Committee, Investment and Risk Management Committee, Remuneration Committee and Nomination Committee. All Committees perform their specific roles and duties in accordance with their respective written terms of reference.

Audit Committee

The Audit Committee was established in 1999 and all members are INEDs. Members of the Audit Committee are Mr. Goh Gen Cheung (Chairman), Mr. Zhu Wuxiang, Mr. James Chan, Mr. Song Lishui and Mr. Xie Ming. The Audit Committee is chaired by Mr. Goh Gen Cheung who is an associate member of the Chartered Institute of Bankers and has over 30 years of treasury, finance and banking experience. All members of this committee hold the relevant industry and financial experience necessary to advise on Board strategies and other related matters. The Board adopted a set of the revised terms of reference of the Audit Committee effective from 1 January 2019, which had included changes in line with the requirements under the Listing Rules. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time.

The Audit Committee is mainly responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements and issues arising from the audit, and reviewing the Group's internal controls and risk management. In addition, the Audit Committee had been delegated the responsibility to perform the corporate governance functions including:

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

2. to review and monitor the training and continuous professional development of Directors and senior management;

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

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

5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Every year, the Audit Committee meets with the Group's independent auditors to discuss the annual audit plan. The meetings of the Audit Committee are attended by members of the committee, and where necessary, the independent auditors. Independent auditors made presentations to the Audit Committee on implications of the introduction of new accounting standards in Hong Kong and their audit methodologies. The Audit Committee subsequently reported its recommendations to the Board for further review and approval. The Audit Committee is also entrusted with monitoring and assessing the independence and objectivity of the independent auditors and the effectiveness of the audit process. All partners of independent auditors are subject to periodic rotations, and where necessary, the ratio of annual fees for non-audit services and for audit service is subject to close scrutiny by the Audit Committee.

A summary of the work performed by the Audit Committee during the year ended 31 December 2018, the Audit Committee reviewed and discussed consolidated financial statements of the Group for the financial year ended 31 December 2018 and the Group's unaudited interim results for the six months ended 30 June 2018 with the external auditor, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company and internal control system and risk management and determined the policy for corporate governance. The Group's annual report for the year ended 31 December 2018 has been reviewed by the Audit Committee.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Audit Committee (continued)

The terms of reference of the Audit Committee which can be viewed on the website of the Company under the section headed "Management" and the website of the Stock Exchange.

Investment and Risk Management Committee

The investment and risk management committee was established on 4 May 2011 and is mainly responsible for: (i) assessing and recommending to the Board all possible investment proposals prepared by the senior management; (ii) analysing the possible adverse effect of global economic environment and recommending measures and solutions to the Board; and (iii) assessing the operating risks of the Group and recommending solutions to the Board.

For the year ended 31 December 2018, the members of the investment and risk management committee were Mr. Qian Xu (Chairman), Mr. Siu Kin Wai, Mr. Dong Qilin, Mr. Li Changfeng and Mr. Cheng Ching Fu. All members are executive directors of the Company as the committee will mostly involve in operational matters of the Company.

A summary of the work performed by the Investment and Risk Management Committee during the year ended 31 December 2018, the Investment and Risk Management Committee reviewed and assessed all acquisitions and investments proposed by the senior management in terms of their benefits to the Company and the potential risks associated. There are four meetings held by the Investment and Risk Management Committee during the year. The terms of reference of the Investment and Risk Management Committee which can be viewed on the website of the Company under the section headed "Management" and the website of the Stock Exchange.

Remuneration Committee

The Remuneration Committee was established in 2005. The majority of the Remuneration Committee members are INEDs. Members of the Remuneration Committee are Mr. Goh Gen Cheung (Chairman), Mr. Yu Luning, Mr. James Chan, Mr. Song Lishui and Mr. Xie Ming. The Board adopted a set of the revised terms of reference of the Remuneration Committee effective from 30 March 2012, which had included changes in line with the requirements under the Listing Rules. The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time. The Remuneration Committee adopted the operation model where it performs an advisory role to the Board and to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management with the Board retaining the final authority to approve executive Directors' and senior management remuneration. Its principal role is to assist the Board to oversee the policy and structure of the remuneration of the Director(s) of the Company and senior officers of the Group. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no Director is involved in decision of his own remuneration.

A summary of the work performed by the Remuneration Committee during the year ended 31 December 2018, the Remuneration Committee have reviewed remuneration policy and oversee the remuneration packages of executive Directors and senior management taking into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management.

The terms of reference of the Remuneration Committee which can be viewed on the website of the Company under the section headed "Management" and the website of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Nomination Committee

The Nomination Committee was established in 2005. The majority of the Nomination Committee members are INEDs. Members of the Nomination Committee are Mr. James Chan (Chairman), Mr. Goh Gen Cheung, Mr. Qian Xu, Mr. Yu Luning, Mr. Song Lishui and Mr. Xie Ming. The Board adopted a set of the terms of reference of the Nomination Committee effective from 30 August 2013, which had included changes in line with the requirements under the Listing Rules. The Nomination Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time. The major responsibilities of the Nomination Committee include to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of the independent non-executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer as well as the senior management.

A summary of the work performed by the Nomination Committee during the year ended 31 December 2018, the Nomination Committee has reviewed and evaluated the composition of the Board with reference to certain criteria. These criteria included qualifications required under the Listing Rules or any other relevant laws regarding characteristics and skills of the Directors, professional ethics and integrity, appropriate professional knowledge and industry experience, as well as ability to devote sufficient time to the work of the Board and its committees and to participate in all Board meetings and shareholders' meetings; reviewed and recommended the re-appointment of the retiring Directors; assessed independence of the independent non-executive Directors; assessed and recommended the appointment of Mr. Ng Kin Nam as an Executive Director; and reviewed and recommended the appointment letter of Mr. Ng Kin Nam.

The terms of reference of the Nomination Committee which can be viewed on the website of the Company under the section headed "Management" and the website of the Stock Exchange.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for evaluating and determining the nature and extent of the risks that should be taken in achieving the Group's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems to safeguard the Group's assets and shareholders' interests. The internal audit department of the Group is responsible for performing independent review of the adequacy and effective of the risk management and internal control systems and plays a major role in monitoring the risk management and internal controls of the Group and reports directly to the Audit Committee. It has full access to review all aspects of the Group's activities, risk management and internal controls. All types of internal audited reports are circulated to the Audit Committee and key management, which will follow up on any actions and measures taken to improve risk management and internal controls on its findings and recommendations by the internal audit department.

The Group's risk management and internal control system includes the setting up of a management structure with limits of authority, and is designed to help the Group achieve its business objectives, protects its assets against unauthorized use or disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information, and ensures compliance with relevant laws and regulations. The system is designed to provide reasonable but not absolute assurance against material misstatement or loss, and to manage rather than eliminate all risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL AND RISK MANAGEMENT (continued)

During the year under review, the internal audit department conducted reviews of the effectiveness and adequacy of the Group's risk management and internal control systems, over financial, operational, compliance control and risk management functions with emphasis on construction cost, budget control, human resource management and accounting reporting. After the review, the Board together with the Audit Committee considers that there were no significant internal control or risk management issues that would have an adverse impact on the financial position or operations of the Group, but certain areas for improvement have been identified by the internal audit department. The management of the Group has adopted various rectification measures according to the internal audited report. After a follow-up examination by the internal audit department, all internal control issues were rectified. The Group also understands that risk management and internal control systems are not merely about policies and manuals, but about people and the actions they take at every level of the Group. To support all employees, regular training is provided to strengthen their awareness of risk and capability to manage risks. The Board together with the Audit Committee reviewed that there were adequate staff with appropriate and adequate qualifications and experience, resources for accounting, internal audit and financial reporting functions, and adequate training programmes had been provided during the year.

DIVIDEND POLICY

The Company has adopted dividend policy (the "Dividend Policy") on 15 February 2019 in compliance with code provision E.1.5 of the CG Code. It is the policy of the Company, in considering the payments of dividends, to allow shareholders of the Company to participate in the Company's profits, while also ensuring that adequate reserves are retained for future prospects of the Group.

Under the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others,

- the general financial condition of the Group;
- the Group's actual and future operations and liquidity position;
- the Group's expected working capital requirements and future expansion plans;
- the Group's debt to equity ratios and the debt level;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the retained earnings and distributable reserves of the Company and each of the members of the Group;
- the shareholders' and the investors' expectation and industry's norm;
- the general market conditions; and
- any other factors that the Board deems appropriate.

Any declaration and payment of dividend shall remain to be determined at the discretion of the Board and subject to the compliance with all applicable laws and regulations including the laws of the Bermuda and the Company's Articles of Association.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY (continued)

The Company will from time to time review the Dividend Policy and may exercise at its absolute and sole discretion to update, amend and/or modify the Dividend Policy at any time as the Board deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any specific reporting period.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group complies with requirements of Securities and Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

AUDITOR'S REMUNERATION

During the year under review, external auditor's remuneration for annual audit services was approximately HK$4.5 million; and external auditor's remuneration for non-audit service assignments was approximately HK$3.9 million, which represented agreed-upon procedures engagement in connection with the Group's interim report, tax advisory and compliance services and financial and tax due diligence assignments for potential acquisitions. The Audit Committee had concluded that it is satisfied with the findings of its review of the audit and non-audit services fees, process and effectiveness, independence and objectivity.

COMPANY SECRETARY

Mr. Cheng Ching Fu, as the executive director, is also the company secretary of the Company. The biographical details of Mr. Cheng are set out under the section headed "Directors and Senior Management". In accordance with Rule 3.29 of the Listing Rules, Mr. Cheng has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2018.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial year which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. In preparing the accounts for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The responsibility of Ernst & Young, the Company's external auditors, is set out on pages 65 to 70 of the "Independent Auditor's Report" in this annual report.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening a special general meeting by shareholders ("SGM")

The Board shall be on the written requisition of shareholders of the Company holding at the date of the deposit of the requisition in aggregate not less than one-tenth of such of the paid-up capital of the Company carrying the right of voting at the SGM, forthwith proceed duly to convene the SGM ("Requisition"). The Requisition, which may consist of several documents in like form each signed by one or more requisitionists, must state the objects of the SGM and deposited at the Company's head office and principal place of business in Hong Kong.

If the Board does not within twenty-one days from the date of the deposit of the Requisition proceed duly to convene a SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM in the same manner, as nearly as possible, as that in which SGM may be convened by the Board, but any meeting so convened shall not be held after the expiration of three months from the aforesaid date of the deposit of the Requisition.

All reasonable expenses incurred by the requisitionists as a result of the failure of the Board to convene such a SGM shall be reimbursed to them by the Company.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries to the Board for the attention of the secretary of the Company ("Company Secretary") via email (ir@bphl.com.hk) or directed to the Company's head office and principal place of business in Hong Kong at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. Shareholders may also make enquiries with the Board at the general meetings of the Company.

Procedures for putting forward proposals at shareholders' meetings

If a shareholder of the Company wishes to put forward proposals at the annual general meeting (the "AGM")/SGM which is to be held, such shareholder, who is duly qualified to attend and vote at such general meeting, shall follow the procedures as set out below which are required in accordance with the Bye-laws and the Listing Rules.

1. A shareholder shall validly serve on the Company Secretary his/her written and signed notice of intention to propose a resolution at the AGM/SGM.

2. The foregoing documents shall be lodged at the Company's head office and principal place of business in Hong Kong at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (continued)

Procedures for putting forward proposals at shareholders' meetings (continued)

3. The period for lodgment of the foregoing notices required under the Bye-Laws shall commence on the day after the despatch of the notice of the AGM/SGM and end no later than 7 days prior to the date of the AGM/SGM and such period shall be at least 7 days.

4. If the foregoing notices shall be received less than 10 business days prior to the date of such AGM/SGM, the Company needs to consider the adjournment of such AGM/SGM in order to allow shareholders of the Company 14 days' notice (the notice period must include 10 business days) of the proposal.

5. The foregoing notice of intention to propose a resolution will be verified by the Company's branch share registrar in Hong Kong (the "Branch Share Registrar"). Upon confirmation from the Branch Share Registrar, the Company Secretary will present to the board of Directors for their approval on the inclusion of the proposed resolutions in the AGM/SGM.

INVESTOR RELATIONS

Communication with shareholders

The Board believes that effective and proper investor relations play an important role in creating shareholders' value, enhancing the corporate transparency as well as establishing market confidence.

During the financial year ended 31 December 2018, the Company has proactively taken the following measures to ensure effective shareholders' communication and enhance our transparency:

1. maintained frequent contacts with institutional shareholders and investors through various channels such as meetings, telephone and emails; and

2. updated regularly the Company's news and developments through the "investor relations" section of the Company's website.

The above measures will provide shareholders with the latest development of the Group as well as the real estate including high-end and modern general warehouse, cold chain logistics warehouse, specialised wholesale market, industrial property, commercial property and primary land development.

Constitutional documents

The special resolution regarding the amendments to the Bye-laws had been passed by the shareholders of the Company at the AGM held on 29 June 2012. There was no change to the Company's Memorandum of Association and Bye-laws during the year ended 31 December 2018. An updated consolidated version of the Memorandum of Association and Bye-Laws is available on both the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Beijing Properties (Holdings) Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Properties (Holdings) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 171, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties and net realisable value of land held for development or sale	
At 31 December 2018, the Group had investment properties with a total carrying amount of HK$7,636,423,000, which represented 42% of the total assets of the Group as at that date. These properties were mainly located in the People's Republic of China ("PRC") and are either leased to third parties or under construction. The Group adopts the fair value model to measure its investment properties in accordance with Hong Kong Accounting Standard ("HKAS") 40 *Investment Property* and, for the purpose of assisting management in their assessment of the fair values, engaged an independent professional valuer to perform fair value valuations of all its investment properties. In addition, as at 31 December 2018, the Group had land held for development or sale with a total carrying amount of HK$4,316,982,000, which represented 24% of the total assets of the Group as at that date. These properties were located in Cambodia and the PRC. Land held for development or sale are stated at the lower of cost and net realisable value. The net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. The Group engaged an independent professional valuer to perform fair value valuations of all its land held for development or sale for impairment assessment. The valuations of investment properties and land held for development or sale involve significant judgements and estimation. The significant accounting judgements and estimates and disclosures for fair value measurement of investment properties and land held for development or sale are included in notes 3 and 14 to the consolidated financial statements.	We evaluated the objectivity, independence and competence of the external valuer. We reviewed the data used as inputs for the valuations and also involved our internal valuation specialists to assist us in evaluating the valuation methodologies adopted and performing market value benchmarking against comparable properties on a sample basis. Finally, we assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
Goodwill carried in the Group's consolidated statement of financial position as at 31 December 2018 amounted to HK$186,104,000. In accordance with HKAS 36 *Impairment of Assets*, the Group is required to test goodwill for impairment at least on an annual basis. In this regard, the Group performed an impairment test on its goodwill by estimating the fair value less costs of disposal of the relevant cash-generating units to which the goodwill has been allocated, using the direct comparison method, and compared with the respective carrying values of the relevant cash-generating units. This test is largely based on management expectations, assumptions and estimates of fair value of the relevant cash-generating units. The assumptions are affected by expectations of future market or economic conditions. The significant accounting judgements and estimates and disclosures for the goodwill impairment testing are included in notes 3 and 16 to the consolidated financial statements, respectively.	We reviewed management's assessment of the recoverable amounts. Our procedures included understanding and evaluating the Group's basis of allocation of goodwill to relevant cash-generating units, and the method of determining the fair value less costs of disposal of the relevant cash-generating units. In addition, we evaluated the objectivity, independence and competence of the external valuer and involved our internal valuation specialists to assist us in evaluating the valuation methodologies adopted and performing market value benchmarking against comparable properties on a sample basis in respect of the valuation of buildings and investment properties of the relevant cash-generating units. Finally, we assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.
Provision for compensation	
At 31 December 2018, the Group recorded a provision for resettlement compensation of HK$225,586,000 payable to certain indigenous properties owners and tenants affected by the construction works of a shopping mall of the Group in Guangzhou, the PRC undertaken by a subsidiary in prior years. Estimating the compensation payable is complex and judgemental and the amount involved is material to the consolidated financial statements. The significant accounting judgements and estimates and disclosures for the provision for compensation are included in notes 3 and 32 to the consolidated financial statements, respectively.	We assessed the methodologies and assumptions adopted by management and data used as inputs for the estimations of the probable compensation liabilities by checking to the results of historical lawsuits, and evidence related to latest negotiations with local government authorities and certain indigenous properties owners and tenants. We also made reference to a legal letter from an independent professional legal counsel and any additional court verdicts of litigations against the Group in connection with the resettlement in assessing the adequacy of the provision made by the Group. Finally, we assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**480,705**	335,025
Cost of sales and services		**(155,678)**	(79,955)
Gross profit		**325,027**	255,070
Changes in fair value of investment properties, net	14	**478,053**	(110,572)
Gains on bargain purchase of subsidiaries	42(a)	**–**	578,151
Other income and gains, net	6	**123,232**	200,542
Selling and distribution expenses		**(15,976)**	(17,581)
Administrative expenses		**(239,265)**	(207,234)
Other expenses		**(37,595)**	(35,506)
Finance costs	7	**(490,364)**	(506,361)
Share of profits and losses of:			
Joint ventures	17(b)	**167,309**	88,818
Associates	18(b)	**6,108**	53,360
PROFIT BEFORE TAX	8	**316,529**	298,687
Income tax	11	**(216,329)**	(3,103)
PROFIT FOR THE YEAR		**100,200**	295,584
Attributable to:			
Shareholders of the Company		**(23,677)**	300,916
Non-controlling interests		**123,877**	(5,332)
		100,200	295,584
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	12		
Basic and diluted		**(HK0.34 cent)**	HK4.41 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR		**100,200**	295,584
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
– Exchange differences on translation of foreign operations		**(449,391)**	354,725
– Share of other comprehensive income/(loss) of:			
Joint ventures		**(54,569)**	12,862
Associates		**(13,284)**	25,675
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**(517,244)**	393,262
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
– Exchange differences on translation of the Company's financial statements into its presentation currency		**–**	95,837
– Changes in fair value of equity investments at fair value through other comprehensive income, net of income tax of nil		**(30,176)**	90,731
– Actuarial gains/(losses) of defined benefit plans	36(b)	**(3,153)**	312
– Share of other comprehensive income/(loss) of:			
Joint ventures		**–**	2,738
Associates		**(1,321)**	921
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**(34,650)**	190,539
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX OF NIL		**(551,894)**	583,801
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(451,694)**	879,385
Attributable to:			
Shareholders of the Company		**(482,812)**	778,418
Non-controlling interests		**31,118**	100,967
		(451,694)	879,385

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,135,586**	926,288
Investment properties	14	**7,636,423**	7,526,612
Prepaid land lease payments	15	**83,072**	58,734
Goodwill	16	**186,104**	186,104
Interests in joint ventures	17	**1,795,922**	1,840,408
Investments in associates	18	**877,790**	775,647
Equity investment at fair value through other comprehensive income	19	**22,787**	52,964
Deposits paid for acquisitions of subsidiaries	20	**–**	91,296
Prepayments, deposits and other receivables	25	**29,681**	58,031
Land held for development or sale	21	**4,316,982**	3,639,652
Pledged and restricted bank deposits	27	**62,759**	55,275
Deferred tax assets	37	**28,325**	21,164
Total non-current assets		**16,175,431**	15,232,175
CURRENT ASSETS			
Land held for development or sale	21	**–**	561,600
Properties held for sale	22	**91,995**	97,476
Inventories	23	**1,695**	8,810
Trade receivables	24	**10,633**	11,317
Prepayments, deposits and other receivables	25	**101,127**	197,241
Due from a joint venture	17	**153,813**	38,605
Due from associates	18	**29,126**	36,691
Due from other related parties	26	**–**	3,348
Pledged and restricted bank deposits	27	**656,199**	38,667
Cash and cash equivalents	27	**1,101,402**	1,634,772
Total current assets		**2,145,990**	2,628,527
CURRENT LIABILITIES			
Trade payables	28	**9,553**	9,275
Other payables and accruals	29	**1,106,628**	695,382
Due to a joint venture	17	**127,239**	–
Due to other related parties	26	**167,900**	163,386
Bank borrowings	30	**1,115,297**	167,523
Guaranteed bonds	31	**–**	2,320,180
Income tax payables		**65,801**	63,328
Provision for compensation	32	**225,586**	243,733
Total current liabilities		**2,818,004**	3,662,807

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NET CURRENT LIABILITIES		**(672,014)**	(1,034,280)
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,503,417**	14,197,895
NON-CURRENT LIABILITIES			
Investment deposits received	33	**–**	114,972
Due to other related parties	26	**451,948**	448,451
Bank borrowings	30	**2,394,701**	2,889,883
Guaranteed bonds	31	**4,246,036**	2,330,206
Derivative financial instrument	34	**20,937**	50,947
Deferred revenue	35	**210,481**	86,940
Defined benefit obligations	36(b)	**19,427**	16,929
Deferred tax liabilities	37	**1,589,657**	1,466,928
Total non-current liabilities		**8,933,187**	7,405,256
Net assets		**6,570,230**	6,792,639
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	38	**696,933**	685,260
Reserves	40(a)	**3,233,645**	3,734,063
		3,930,578	4,419,323
Non-controlling interests		**2,639,652**	2,373,316
Total equity		**6,570,230**	6,792,639

Qian Xu
Director

Siu Kin Wai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		Attributable to shareholders of the Company													
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000 (note 40(b))	Capital and other reserves HK$'000	Convertible bond equity reserve HK$'000	Financial asset revaluation reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC statutory reserves HK$'000 (note 40(c))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		676,659	1,705,102	367,278	194,415	(50,359)	247,321	(304,769)	(2,987)	(526,412)	3,004	1,351,338	3,660,590	1,344,253	5,004,843
Profit for the year		–	–	–	–	–	–	–	–	–	–	300,916	300,916	(5,332)	295,584
Other comprehensive income for the year:															
– Changes in fair value of equity investments at fair value through other comprehensive income, net of income tax of nil		–	–	–	–	–	–	90,731	–	–	–	–	90,731	–	90,731
– Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	349,723	–	–	349,723	100,839	450,562
– Share of other comprehensive income of a joint venture		–	–	–	–	1,780	–	–	–	8,360	–	–	10,140	5,460	15,600
– Share of other comprehensive income of an associate		–	–	–	–	921	–	–	–	25,675	–	–	26,596	–	26,596
– Actuarial gains of defined benefit plans		–	–	–	–	–	–	–	312	–	–	–	312	–	312
Total comprehensive income for the year		–	–	–	–	2,701	–	90,731	312	383,758	–	300,916	778,418	100,967	879,385
Reclassification adjustment upon deemed disposal of equity investments at fair value through other comprehensive income	18(a)	–	–	–	–	–	–	132,300	–	–	–	(132,300)	–	–	–
Early redemption of convertible bonds		–	–	–	–	–	(247,321)	–	–	–	–	163,832	(83,489)	–	(83,489)
Acquisition of subsidiaries classified as business combinations	42(a)	–	–	–	–	47,977	–	–	–	–	–	–	47,977	981,954	1,029,931
Acquisition of subsidiaries classified as acquisition of assets and liabilities	42(b)	8,601	24,944	–	–	–	–	–	–	–	–	–	33,545	–	33,545
Acquisition of a non-controlling equity holder of a subsidiary		–	–	–	–	(17,718)	–	–	–	–	–	–	(17,718)	(74,270)	(91,988)
Transfer of share option reserve upon forfeiture of share options	39	–	–	–	(13,700)	–	–	–	–	–	–	13,700	–	–	–
Contribution from non-controlling equity holders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	20,412	20,412
At 31 December 2017 and 1 January 2018		685,260	1,730,046*	367,278*	180,715*	(17,399)*	–*	(81,738)*	(2,675)*	(142,654)*	3,004*	1,697,486*	4,419,323	2,373,316	6,792,639
Profit/(loss) for the year		–	–	–	–	–	–	–	–	–	–	(23,677)	(23,677)	123,877	100,200
Other comprehensive income/(loss) for the year:															
– Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	(375,732)	–	–	(375,732)	(73,659)	(449,391)
– Changes in fair value of equity investments at fair value through other comprehensive income, net of income tax of nil		–	–	–	–	–	–	(30,176)	–	–	–	–	(30,176)	–	(30,176)
– Actuarial losses of defined benefit plans		–	–	–	–	–	–	–	(3,153)	–	–	–	(3,153)	–	(3,153)
– Share of other comprehensive loss of joint ventures		–	–	–	–	–	–	–	–	(35,469)	–	–	(35,469)	(19,100)	(54,569)
– Share of other comprehensive income/(loss) of associates		–	–	–	–	2,380	–	(3,701)	–	(13,284)	–	–	(14,605)	–	(14,605)
Total comprehensive income/(loss) for the year		–	–	–	–	2,380	–	(33,877)	(3,153)	(424,485)	–	(23,677)	(482,812)	31,118	(451,694)
Reduction in consideration shares to be issued for the acquisition of a subsidiary in the prior year as a result of a change in settlement terms of consideration	42(a)(ii)	–	–	–	–	(4,203)	–	–	–	–	–	(2,342)	(6,545)	–	(6,545)
Issue of consideration shares for the acquisition of a subsidiary in the prior year	38	11,673	32,101	–	–	(43,774)	–	–	–	–	–	–	–	–	–
Contribution from the non-controlling equity holder of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	3,414	3,414
Deemed disposal of subsidiaries without loss of control	33	–	–	–	–	715	–	–	–	–	–	–	715	231,804	232,519
Reclassification		–	–	–	–	–	–	8,120	–	–	–	(8,223)	(103)	–	(103)
Transfer to reserves		–	–	–	–	–	–	–	–	–	6,234	(6,234)	–	–	–
At 31 December 2018		696,933	1,762,147*	367,278*	180,715*	(62,281)*	–*	(107,495)*	(5,828)*	(567,139)*	9,238*	1,657,010*	3,930,578	2,639,652	6,570,230

* These reserve accounts comprise the consolidated reserves of HK$3,233,645,000 (2017: HK$3,734,063,000) in the consolidated statement of financial position as at 31 December 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**316,529**	298,687
Adjustments for:			
Gains on bargain purchase of subsidiaries	42(a)	**–**	(578,151)
Bank interest income	6	**(40,924)**	(52,562)
Other interest income	6	**(28,184)**	(18,355)
Government grants	6	**(8,928)**	(6,473)
Fair value loss/(gain) of investment properties, net	14	**(478,053)**	110,572
Fair value gain of a derivative financial instrument	6	**(30,010)**	(3,173)
Gain on deemed acquisition of an associate	6	**–**	(138)
Impairment of an associate	8	**–**	4,534
Loss on disposal of items of property, plant and equipment	8	**26**	107
Depreciation	13	**46,582**	40,346
Amortisation of prepaid land lease payments	15	**2,986**	1,411
Provision/(reversal of provision) for compensation, net	32	**(1,009)**	10,155
Cost of defined benefit plans	36(a)	**1,103**	992
Finance costs	7	**490,364**	506,361
Share of profits of joint ventures		**(167,309)**	(88,818)
Share of profits of associates		**(6,108)**	(53,360)
Operating profit before working capital changes		**97,065**	172,135
Decrease/(increase) in inventories		**7,115**	(900)
Increase in land for development or sale		**(116,356)**	–
Decrease in trade receivables		**684**	16,787
Decrease/(increase) in prepayments, deposits and other receivables		**78,268**	(62,291)
Increase in amounts due from other related parties		**11,906**	(6,951)
Increase/(decrease) in trade payables		**278**	(44,138)
Increase/(decrease) in other payables and accruals		**(123,431)**	43,273
Increase in amounts due to other related parties		**7,418**	–
Increase in amounts due to a joint venture		**859**	–
Decrease in defined benefit obligations		**(557)**	(507)
Cash generated from/(used in) operations		**(36,751)**	117,408
Mainland China income tax paid		**(34,993)**	(10,926)
Settlement for compensation	32	**(4,671)**	(7,793)
Net cash flows from/(used in) operating activities (note)		**(76,415)**	98,689

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(8,145)**	(22,638)
Acquisition of investment properties	14	**(465,994)**	(380,435)
Government grants received		**96,106**	89,530
Acquisition of subsidiaries classified as business combinations	42(a)	**–**	(1,700,115)
Acquisition of subsidiaries classified as acquisition of assets and liabilities	42(b)	**–**	(152,095)
Payment in respect of acquisition of a subsidiary in prior year		**(22,582)**	(23,889)
Investments in joint ventures		**(256,528)**	(12,007)
Investment in an associate		**(119,501)**	–
Acquisition of associates		**–**	(180,337)
Proceeds from disposal of items of property, plant and equipment		**850**	84
Refund of deposits paid for acquisition of subsidiaries		**84,007**	–
Proceeds from capital reduction of a joint venture		**10,224**	–
Advance to a joint venture		**–**	(763,706)
Repayment of loan advance to a joint venture		**408,493**	115,306
Interest received		**52,903**	52,562
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**153,115**	(254,565)
Net cash flows used in investing activities		**(67,052)**	(3,232,305)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from non-controlling equity holders of subsidiaries		**3,414**	20,411
New loans		**700,414**	1,474,378
Repayment of loans		**(156,943)**	(948,780)
Issue of guaranteed bonds		**1,923,454**	2,281,334
Repayment of guaranteed bonds		**(2,374,792)**	–
Redemption of convertible bonds		**–**	(689,109)
Deposit received for partial disposal of a subsidiary		**117,546**	114,972
Net advances from other related parties		**593**	67,831
Acquisitions of the non-controlling interests of subsidiaries		**–**	(113,484)
Interest paid		**(390,248)**	(322,514)
Net cash flows from/(used in) financing activities		**(176,562)**	1,885,039

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(320,029)**	(1,248,577)
Cash and cash equivalents at beginning of year		**1,458,522**	2,651,197
Effect of foreign exchange rate changes, net		**(61,165)**	55,902
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,077,328**	1,458,522
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Deposits placed with a fellow subsidiary	27	**236,970**	130,678
Time deposits	27	**588,372**	407,264
Other cash and bank balances	27	**995,018**	1,190,772
Less: Restricted cash	27	**(718,958)**	(93,942)
Cash and cash equivalents as stated in the consolidated statement of financial position	27	**1,101,402**	1,634,772
Add: Restricted cash and pledged deposits in connection with bank borrowings		**40,353**	41,292
Less: Time deposits with maturity of more than three months when acquired		**(64,427)**	(217,542)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,077,328**	1,458,522

	2018 HK$'000	2017 HK$'000
Note: Net cash flows from/(used in) operating activities comprises:		
Operating cash flows before purchase of land held for development or sale	**96,101**	98,689
Purchase of land held for development or sale	**(172,516)**	–
Net cash flows from/(used in) operating activities	**(76,415)**	98,689

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

Beijing Properties (Holdings) Limited (the "Company") is a limited liability company incorporated in Bermuda and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively the "Group") were involved in the following principal activities:

- leasing of commercial properties in the mainland ("Mainland China") of the People's Republic of China (the "PRC") and provision of related management services, and operating a hotel in Beijing, the PRC;
- provision of logistic services, including leasing of general warehouses, cold chain logistic warehouses and specialised wholesale market, and provision of related logistic and management services;
- leasing of industrial plants and provision of related management services; and
- sale of land for development or sale, and provision of primary land development services.

The immediate holding company of the Company is Beijing Enterprises Real Estate (HK) Limited ("BEREHK"), which is a limited liability company incorporated in the British Virgin Islands, and, in the opinion of the directors, the ultimate holding company of the Company is 北京控股集團有限公司 ("Beijing Enterprises Group"), which is a state-owned enterprise established in the PRC and wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing SASAC").

Information about principal subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/registered capital	Percentage of attributable equity interest held by the Group	Principal activities
China Logistics Infrastructures (Holdings) Limited ("China Logistics")Ω	British Virgin Islands/Hong Kong	US$100	65	Investment holding
廣州光明房產建設有限公司 ("Guangzhou Guangming")@#	PRC/Mainland China	US$28,080,000	98.90	Shopping mall holding and leasing
北京金都假日飯店有限公司 ("BJ Holiday Inn")+#	PRC/Mainland China	US$11,520,000	100	Hotel operation

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (continued)

Information about principal subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/registered capital	Percentage of attributable equity interest held by the Group	Principal activities
Zhong Jian Jin Bian Jing Ji Te Qu Ltd ("Zhong Jian Jin Bian")#	Cambodia	US$10,000,000	60	Primary land development
天津萬士隆國際物流有限公司@#	PRC/Mainland China	US$6,660,000	75.50	General warehouse leasing
北建(上海)倉儲有限公司^	PRC/Mainland China	US$98,500,000	65	General warehouse leasing
廈門遜達洪通倉儲物流有限責任公司@#	PRC/Mainland China	RMB135,000,000	80	General warehouse leasing
眉山遜達洪通倉儲有限責任公司 ("Meishan Xunda")@#	PRC/Mainland China	RMB140,000,000	60	General warehouse leasing
天域萬隆物流(天津)有限公司^#	PRC/Mainland China	US$9,800,000	75.50	General warehouse leasing
天津通達優智物流有限公司 ("Tianjin Tong Da You Zhi")^#	PRC/Mainland China	HK$20,000,000	65	General warehouse leasing
通遼大華物流有限責任公司#	PRC/Mainland China	RMB23,848,800	100	General warehouse leasing and provision of logistic services
衢州通成農業發展有限公司^#	PRC/Mainland China	RMB249,800,000	100	Specialised wholesale market leasing for the trading and distribution of local agricultural products
天津中漁置業有限公司@#	PRC/Mainland China	RMB112,500,000	60	Provision of cold chain logistic warehouse management services

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (continued)

Information about principal subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/registered capital	Percentage of attributable equity interest held by the Group	Principal activities
新丹物流設施發展(蘇州)有限公司^#	PRC/Mainland China	US$60,000,000	54.36	Industrial plant development
嘉地工業地產發展(常熟)有限公司^#	PRC/Mainland China	US$60,000,000	54.36	Industrial plant development
福城工業設施發展(太倉)有限公司^#	PRC/Mainland China	US$30,000,000	54.36	Industrial plant leasing
北京允中投資咨詢有限公司^#	PRC/Mainland China	US$30,000,000	100	Office management

+ Registered as foreign joint ventures under PRC law.

@ Registered as Sino-foreign joint ventures under PRC law.

^ Registered as wholly-foreign-owned enterprises under PRC law.

Ω Except for this entity which is directly held by the Company, all other principal subsidiaries are indirectly held by the Company.

Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

At 31 December 2018, certain equity interests of subsidiaries with an aggregate net asset value of HK$3,117,486,000 (2017: HK$3,018,350,000) were pledged to secure certain bank loans granted to the Group (note 30(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PRESENTATION

Despite that, as at 31 December 2018, the Group had net current liabilities of HK$672,014,000 and capital commitments of HK$544,928,000 in total as further detailed in note 45 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's cash flow projection which, inter alia, takes into account the historical operating performance of the Group and the following:

- the unutilised banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that the existing banking facilities will continue to be available from the Group's principal bankers; and

- certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2019 with reference to the terms of respective agreements and the current status of the projects.

In addition, the Company has an existing plan to realise certain investments and/or properties, and will consider equity and/or debt financing when necessary to provide additional working capital to the Group.

Accordingly, these financial statements have been prepared on the going concern basis which assumes, inter alia, the realisation of assets and satisfaction of liabilities in the normal course of business.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, a derivative financial instrument, defined benefit obligations and equity investment at fair value through other comprehensive income, which have been measured at fair value. These financial statements are presented in Hong Kong dollar ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Adoption of new and revised standards

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Adoption of new and revised standards (continued)

Other than as explained below regarding the impact of HKFRS 15, amendments to HKAS 40 and HK(IFRIC)-Int 22, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and they apply, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.5 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The adoption of HKFRS 15 and its amendments does not have a significant impact on the recognition of revenue of the Group, but has resulted in more disclosures in the financial statements.

(b) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendments have had no impact on the financial position or performance of the Group.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Change in functional currency of the Company

The Company changed its functional currency from Renminbi ("RMB") to the United States dollar ("US$") effective from 1 January 2018. The reason for the change in functional currency of the Company was after taking into consideration of, inter alia, the facts that (i) majority of the Company's cash flows arose from investing and financing activities which have been predominately transacted in US$ since the second half of 2017, including recent investments in Cambodia and debt financing activities; and (ii) the Company had comparatively less cash flows denominated in RMB.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

(c) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrual lease payments relating to the lease recognised in the consolidated statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During the year, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16 and the Group has estimated that right-of-use assets and lease liabilities of HK$6,984,000 each will be recognised at 1 January 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

(e) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or a joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or the joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or a joint venture and impairment of the net investment in the associate or the joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss

Business combinations and goodwill

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

Fair value measurement

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a holding company of the Group; or

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of different categories of property, plant and equipment are as follows:

Hotel property	40 years
Buildings and warehouses	Over the shorter of the lease terms and 40 years
Leasehold improvements	Over the shorter of the lease terms and 4 years
Plant and machinery	5-10 years
Furniture, fixtures and equipment	3-5 years
Motor vehicles	5 years

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

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

Construction in progress represents building refurbishment, which is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties include both completed investment properties and investment properties under construction.

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

Investment properties under construction or development for future use as investment properties are classified as investment properties under construction. Such properties under construction are measured initially at cost, including transaction costs, and, subsequent to initial recognition, are stated at fair value at the end of the reporting period when the fair value can be determined reliably.

Gains or losses arising from changes in the fair values of completed investment properties and investment properties under construction are included in profit or loss in the period in which they arise.

Any gains or losses on the retirement or disposal of completed investment properties or investment properties under construction are recognised in profit or loss in the period of the retirement or disposal.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction cost.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

(a) Financial assets at amortised cost (debt instruments)

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

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

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

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

(b) Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on and instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividend are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments at fair value through other comprehensive income are not subject to impairment assessment.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

General approach

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

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

The Group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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

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

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

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

Simplified approach

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or financial liabilities at amortised cost, as appropriate.

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

The Group's financial liabilities include trade payables and other payables, amounts due to related parties, bank borrowings, guaranteed bonds and a derivative financial instrument.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

(a) Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charge on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKFRS 9 are satisfied. No financial liabilities have been designated as fair value through profit or loss by the Group.

(b) Financial liabilities at amortised cost

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

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

(c) Financial guarantee contracts

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

(d) Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Upon the exercise of the conversion options, the resulting ordinary shares issued are recorded by the Company as additional share capital at the nominal value of the ordinary shares issued, and the excess of the total carrying amount of the liability and equity components of the convertible bonds over the nominal value of the ordinary shares issued is recorded in the share premium account. When the convertible bonds are redeemed, the carrying amount of equity component is transferred to retained profits/accumulated losses as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in profit or loss. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits/accumulated losses as a movement in reserves. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

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

Land held for development or sale

Land held for development or sale is stated at the lower of cost and net realisable value and comprises the land acquisition cost, property transfer tax and other costs directly attributable to such land during the development period.

Net realisable value takes into account the Group's proceeds derived from the sale of land held for development or sale, less costs to completion and the costs to be incurred in realising the revenue derived from the sale of land held for development or sale, based on prevailing market conditions.

Any excess of cost over the net realisable value of individual items of land held for development or sale is recognised as an expense in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost of completed properties held for sale is determined by an apportionment of total land and building costs attributable to the unsold properties. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale of the properties.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and includes all cost of purchase, cost of conversion and other costs incurred in bring the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

Provisions

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

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

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

- in respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

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

(a) *Hotel operation*

Revenue from hotel operation comprises amounts earned in respect of rental of rooms, food and beverage and goods sales and other ancillary services. Revenue is recognised over the period when rooms are occupied or services are performed. Revenue from the sales of food and beverages and goods is recognised at the point of sales when the food and beverages and goods are delivered to the customers. Payment is due immediately when the hotel guest occupies the room and receives the services and goods.

(b) *Sale of land*

Revenue from the sale of land is recognised at the point in time when control of the asset is transferred to the customer.

(c) *Provision of logistic and other ancillary services*

Revenue from provision of logistic and other ancillary services is recognised as services are rendered.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Revenue from contracts with customers (continued)

(d) Provision of property management services

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

Revenue from other sources

(a) Rental income

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

(b) Interest income

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

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

(b) management and service income, when the related services have been provided;

(c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

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

Share-based payments

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

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

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

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapsed are deleted from the register of outstanding options. When the share options are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits/accumulated losses as a movement in reserves.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (pension schemes)

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employee's salaries and are charged to profit or loss as they became payable in accordance with the rules of the central pension scheme. The employer contributions vest fully once made.

The Group also provided supplementary pension subsidies to retired employees. Such supplementary pension subsidies are considered to be defined benefit plans as they oblige the Group to provide post-employment benefits to employees. The benefits are unfunded. The liability recognised in the consolidated statements of financial position in respect of these defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities which have maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognised in other comprehensive income as they occur.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs directly attributable to the construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

The Company has used Hong Kong dollar as the presentation currency of these financial statements, which is different from the Company's functional currency of the United States dollar, because management of the Group ordinarily use Hong Kong dollar for management reporting. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company, certain subsidiaries established in Mainland China and Cambodia are translated into Hong Kong dollars at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

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

Estimation of fair value of investment properties and net realisable value of land held for development or sales

The Group adopts the fair value model to measure its investment properties in accordance with HKAS 40 *Investment Property* and engaged an independent professional valuer to perform fair value valuations of all its investment properties. In addition, the Group's land held for development or sale are stated at the lower of cost and net realisable value and the Group engaged an independent professional valuer to perform fair value valuations of all its land held for development or sale for impairment assessment.

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

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

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

(c) annual rental income supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Control over the hotel operation

The hotel operated by the Group is managed by a hotel manager. The hotel manager manages the day-to-day operations of the hotel and will charge a management fee and a marketing fee to the Group with reference to certain percentage of the total gross revenue of the hotel operation. In addition, the hotel manager will charge an incentive management fee based on a certain percentage of the hotel's net operating profit.

The directors of the Company assessed whether or not the hotel manager is a principal or agent of the Group. In making their judgement, the directors considered the mode of operation of the hotel manager. After assessment, the directors considered that the hotel manager's scope of decision-making authority is limited and the Group has the power to direct the relevant activities of the hotel operations such as the right to appoint the general manager of the hotel, review and approve the yearly financial budget and decide the hotel's operation plan. In addition, the Group has the right to remove the hotel manager in the situation when the hotel's performance cannot meet certain operating criteria as stated in the management agreement signed with the hotel manager. Accordingly, the directors considered that the Group holds substantive removal rights of the hotel manager and the hotel manager is compensated as stated above for managing the daily operation of the hotel. The directors considered that the remuneration paid to the hotel manager commensurate with the services provided and on an arm's length basis. Therefore, the directors considered that the hotel manager is an agent of the Group and the Group has control over the hotel operation.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the relevant cash-generating units ("CGUs") to which the goodwill is allocated, which is the higher of the fair value less costs of disposal and value in use. In determining the fair value less cost of disposal of the CGUs, references are made to the valuation of investment properties, properties held for sale, buildings, warehouses and/or hotel property held and the carrying amount of the business unit's other assets and liabilities which approximated to their fair value, excluding any deferred tax liabilities initially recognised on acquisition of the relevant business. The assessment of the recoverable amount requires the use of estimates and assumptions such as identifying comparable market transactions for completed investment properties and certain investment properties under construction. These estimates and assumptions are subject to risk and uncertainty. The assumptions were affected by expectations of future market or economic conditions. Therefore, there is a possibility that changes in circumstances will impact on these projections, which will have a corresponding impact on the recoverable amount of the CGUs, thus the goodwill impairment assessment. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2018 was HK$186,104,000 (2017: HK$186,104,000), details of which are set out in note 16 to the financial statements.

Provision for compensation

As further disclosed in note 32 to the financial statements, Guangzhou Guangming, a subsidiary of the Group, involved in certain legal proceedings, arising from its failure to fulfill the compensation obligations liable to certain indigenous properties owners and tenants in accordance with the resettlement schedule agreed in prior years. Management determines the provision for compensation based on their best estimate, after considering all the available information such as the results of historical lawsuits, latest negotiations with local government authorities, certain indigenous properties owners and tenants, relevant rules and law and legal advice. If the final outcome of the claims and negotiations is different from the estimation made by management, such difference will impact on the provision for compensation in the period in which the liabilities of the compensation are concluded.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and Cambodia. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact on the income tax and deferred tax provision in the periods in which the determination is made. The carrying amount of current tax payables carried as liabilities in the consolidated statement of financial position as at 31 December 2018 was HK$65,801,000 (2017: HK$63,328,000).

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Group recognised deferred tax assets of HK$28,325,000 (2017: HK$21,164,000) as at 31 December 2018.

Fair value of a put option

Put option is classified as a derivative financial instrument and stated at fair value. The Group estimates the fair value of the put option with reference to estimated risk-free rate, price to book value ratio, volatility and probability of each possible outcome. The use of methodology and assumptions in pricing and valuing the put option is subjective and requires varying degrees of judgement, which may result in significantly different fair values and results.

Provision for expected credit losses on trade receivables

Provision for expected credit losses is made when the Group will not collect all amounts due. The provision is determined by grouping together trade debtors with similar risk characteristics and collectively or individually assessing them for likelihood of recovery. The provision reflects lifetime expected credit losses, i.e., possible default events over the expected life of the trade receivables, weighted by the probability of that default occurring. Judgement has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of customers and the likelihood of recovery assessed on a combination of collective and individual basis as relevant. While the provision is considered appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provision recorded and consequently on the amount of charge or credit recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on usages of properties held and has four reportable operating segments as follows:

(a) the properties business segment engages in the leasing of commercial properties in Mainland China and the provision of related management services, and a hotel operation in Beijing, the PRC;

(b) the logistics business segment engages in the leasing of general warehouses, cold chain logistic warehouses and specialised wholesale market, and the provision of related logistic and management services;

(c) the industrial business segment engages in the leasing of industrial plants and provision of related management services; and

(d) the primary land development business segment engages in the sale of land for development or sale, and the provision of primary land development services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment's profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that gains on bargain purchase of subsidiaries, gain on deemed acquisition of an associate, fair value gain of a derivative instrument, foreign exchange differences, interest income, finance costs, as well as head office and corporate income/expenses are excluded from such measurement.

Segment assets exclude amounts due from a joint venture, associates and other related parties, deferred tax assets, pledged and restricted bank deposits, cash and cash equivalents, equity investment at fair value through other comprehensive income and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude a derivative financial instrument, bank borrowings, amounts due to a joint venture and other related parties, guaranteed bonds, income tax payables, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

	Properties business		Logistics business		Industrial business		Primary land development business		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**142,931**	138,942	**239,653**	194,345	**20,121**	1,738	**78,000**	–	**480,705**	335,025
Segment results:										
The Group	**257,928**	(15,351)	**239,582**	(72,862)	**80,378**	30,643	**15,498**	(14)	**593,386**	(57,584)
Share of profits and losses of:										
Joint ventures	**–**	–	**167,309**	88,818	**–**	–	**–**	–	**167,309**	88,818
Associates	**4,514**	53,360	**–**	–	**–**	–	**1,594**	–	**6,108**	53,360
	262,442	38,009	**406,891**	15,956	**80,378**	30,643	**17,092**	(14)	**766,803**	84,594
Reconciliation:										
Gains on bargain purchase of subsidiaries									**–**	578,151
Gain on deemed acquisition of an associate									**–**	138
Fair value gain of a derivative instrument									**30,010**	3,173
Bank interest income									**40,924**	52,562
Other interest income									**28,184**	18,355
Foreign exchange differences, net									**(37,109)**	109,833
Corporate and other unallocated income and expenses, net									**(21,919)**	(41,758)
Finance costs									**(490,364)**	(506,361)
Profit before tax									**316,529**	298,687
Segment assets	**3,133,858**	3,139,100	**7,374,759**	6,964,971	**1,212,537**	589,179	**4,399,577**	4,414,766	**16,120,731**	15,108,016
Reconciliation:										
Corporate and other unallocated assets									**2,200,690**	2,752,686
Total assets									**18,321,421**	17,860,702
Segment liabilities	**401,321**	482,558	**921,880**	391,659	**111,765**	198,860	**2,430**	77,994	**1,437,396**	1,151,071
Reconciliation:										
Corporate and other unallocated liabilities									**10,313,795**	9,916,992
Total liabilities									**11,751,191**	11,068,063

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

	Properties business		Logistics business		Industrial business		Primary land development business		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information										
Depreciation:										
Segment assets	**29,489**	28,770	**16,798**	11,490	**194**	56	**72**	–	**46,553**	40,316
Corporate and other unallocated assets									**29**	30
									46,582	40,346
Amortisation of prepaid land lease payments	**1,988**	988	**998**	423	**–**	–	**–**	–	**2,986**	1,411
Impairment of an associate	**–**	4,534	**–**	–	**–**	–	**–**	–	**–**	4,534
Provision/(reversal of provision) for compensation, net	**(1,009)**	10,155	**–**	–	**–**	–	**–**	–	**(1,009)**	10,155
Investments in joint ventures	**–**	–	**1,390,593**	922,235	**–**	–	**–**	–	**1,390,593**	922,235
Investments in associates	**598,638**	607,556	**–**	–	**–**	–	**279,152**	168,091	**877,790**	775,647
Capital expenditure*:										
Segment assets	**4,391**	6,034	**31,999**	491,307	**404,603**	582,184	**–**	4,201,252	**440,993**	5,280,777
Corporate and other unallocated assets									**354**	1,676
									441,347	5,282,453

* Capital expenditure consists of additions of property, plant and equipment, investment properties, and prepaid land lease payments, including assets from the acquisition of subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Mainland China	**402,705**	335,025
Cambodia	**78,000**	–
	480,705	335,025

The revenue information above is based on the locations where the transactions took place.

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Mainland China	**11,533,311**	10,420,823
Cambodia	**4,120,300**	3,613,530
Others	**2,620**	58,889
	15,656,231	14,093,242

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

Information about major customers

During the year ended 31 December 2018, revenue of HK$78,000,000 was derived from sales to a single customer of the primary land development business segment.

During the year ended 31 December 2017, the Group had no single external customer which contributed over 10% of the Group's total revenue for that year.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. REVENUE

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

	2018	2017
	HK$'000	HK$'000
Revenue from hotel operation	**97,636**	95,642
Sales of land	**78,000**	–
Logistic and other ancillary service income	**36,305**	25,511
Property management fee	**25,699**	17,319
Gross rental income	**243,065**	196,553
Total revenue	**480,705**	335,025

Notes:

(a) Disaggregated revenue information

Year ended 31 December 2018

Segments	Properties business	Logistics business	Industrial business	Primary land development business	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Type of goods or services					
Hotel operation	97,636	–	–	–	97,636
Sale of land	–	–	–	78,000	78,000
Logistic and other ancillary services	–	36,305	–	–	36,305
Property management fee	2,749	17,880	5,070	–	25,699
Total revenue from contracts with customers	100,385	54,185	5,070	78,000	237,640
Revenue from another source – Gross rental income	42,546	185,468	15,051	–	243,065
Total revenue	142,931	239,653	20,121	78,000	480,705

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. REVENUE (continued)

Notes: (continued)

(a) Disaggregated revenue information (continued)

Year ended 31 December 2018

Segments	Properties business HK$'000	Logistics business HK$'000	Industrial business HK$'000	Primary land development business HK$'000	Total HK$'000
Geographical markets					
Mainland China	100,385	54,185	5,070	–	159,640
Cambodia	–	–	–	78,000	78,000
Total revenue from contracts with customers	100,385	54,185	5,070	78,000	237,640
Revenue from another source – Gross rental income	42,546	185,468	15,051	–	243,065
Total revenue	142,931	239,653	20,121	78,000	480,705
Timing of revenue recognition					
Goods transferred at a point in time	20,130	36,305	–	78,000	134,435
Service transferred over time	80,255	17,880	5,070	–	103,205
Total revenue from contracts with customers	100,385	54,185	5,070	78,000	237,640
Revenue from another source – Gross rental income	42,546	185,468	15,051	–	243,065
Total revenue	142,931	239,653	20,121	78,000	480,705

(b) Performance obligations

Information about the Group's performance obligations in contracts with customers is summarised below:

Hotel operation

Revenue from hotel operation comprises amounts earned in respect of rental of rooms, food and beverage and goods sales and other ancillary services. Revenue is recognised over the period when rooms are occupied or services are performed. Revenue from the sales of food and beverages and goods is recognised at the point of sales when the food and beverages and goods are delivered to the customers.

Sale of land

The performance obligation is satisfied upon transfer of the control of land use rights and payment in advance is normally required.

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE (continued)

Notes: (continued)

(b) Performance obligations (continued)

Logistic and other ancillary services
The performance obligation is satisfied over time as services are rendered.

Property management fee
The performance obligation is satisfied over time as services are rendered.

6. OTHER INCOME AND GAINS, NET

An analysis of the Group's other income and gains, net is as follows:

	Notes	2018 HK$'000	2017 HK$'000
Other income			
Bank interest income		**40,924**	52,562
Other interest income		**28,184**	18,355
Government grants*		**8,928**	6,473
Others		**15,186**	10,008
		93,222	87,398
Gains, net			
Gain on deemed acquisition of an associate	18(a)	**–**	138
Fair value gain of a derivative financial instrument	34	**30,010**	3,173
Foreign exchange differences, net		**–**	109,833
		30,010	113,144
Other income and gains, net		**123,232**	200,542

* The government grants recognised during the year represented grants received from certain government authorities in respect of the fulfilment of certain specific requirements in respect of the Group's investments in certain subsidiaries, construction of warehouses and purchase of land use rights and property, plant and equipment in the PRC.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

7. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank loans	**166,304**	99,951
Interest on a loan from a non-controlling equity holder of a subsidiary	**226**	–
Interest on guaranteed bonds	**329,126**	251,883
Interest on convertible bonds*	**–**	21,628
Imputed interest on convertible bonds*	**–**	49,966
Loss on early redemption of convertible bonds*	**–**	82,933
Total finance costs	**495,656**	506,361
Less: Amount capitalised in investment properties under construction (note 14)	**(5,292)**	–
	490,364	506,361

* The convertible bonds were issued to an independent third party with a total principal amount of RMB490,510,000 pursuant to a subscription agreement dated 24 January 2014 for the purpose of providing working capital and strengthening the capital base and financial position of the Group. The convertible bonds carried a coupon rate of 4% per annum, were convertible into the Company's ordinary shares at the conversion price of HK$0.74 per share and were redeemable at the option of the Company at any day after the third anniversary of the issuance date. They were fully redeemed by the Company on 15 December 2017 with a loss on redemption of HK$82,933,000 recognised in profit or loss for the year ended 31 December 2017. Further details of the convertible bonds are set out in the Company's announcements dated 26 January 2014 and 12 February 2014.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

8. PROFIT BEFORE TAX

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

	Notes	2018 HK$'000	2017 HK$'000
Direct cost of rental income		**23,428**	30,350
Cost of hotel operation		**48,200**	46,147
Cost of services provided		**27,890**	3,458
Cost of sale of land		**56,160**	–
Depreciation	13	**46,582**	40,346
Less: Amount included in cost of sales and services		**(25,776)**	(17,117)
		20,806	23,229
Amortisation of prepaid land lease payments	15	**2,986**	1,411
Impairment of an associate*	18(c)	**–**	4,534
Minimum lease payments under operating leases in respect of land and buildings		**11,802**	4,909
Loss on disposal of items of property, plant and equipment*		**26**	107
Write-off of trade receivables*		**–**	14,072
Employee benefit expense (including directors' remuneration – note 9)			
Salaries, allowances and benefits in kind		**103,961**	81,884
Defined contribution scheme contributions		**21,418**	18,485
Cost of defined benefit plans	36(a)	**1,103**	992
		126,482	101,361
Less: Amount included in cost of sales and services		**(24,526)**	(22,255)
		101,956	79,106
Provision/(reversal of provision) for compensation, net*	32	**(1,009)**	10,155
Foreign exchange differences, net		**37,109***	(109,833)

* These items are included in "Other expenses" on the face of the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS' REMUNERATION

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

	2018 **HK$'000**	2017 HK$'000
Fees	**2,219**	2,237
Other emoluments:		
Salaries, allowances and benefits in kind	**5,343**	3,553
Performance-related bonus (note (a))	**454**	1,779
Pension scheme contributions	**186**	117
	5,983	5,449
	8,202	7,686

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS' REMUNERATION (continued)

An analysis of directors' remuneration, on a named basis, is as follows:

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance-related bonus HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2018					
Executive directors:					
Mr. Qian Xu	180	2,146	442	–	2,768
Mr. Siu Kin Wai	180	727	6	13	926
Mr. Ang Renyi	144	–	–	–	144
Mr. Yu Luning	144	–	–	–	144
Mr. Hu Yebi (resigned on 6 November 2018)	122	–	–	–	122
Mr. Li Changfeng	144	1,282	–	148	1,574
Mr. Dong Qilin	144	–	–	–	144
Mr. Zhao Jiansuo	144	–	–	–	144
Mr. Li Shuping	144	–	–	–	144
Mr. Cheng Ching Fu	144	1,188	6	25	1,363
Mr. Ng Kin Nam (appointed on 10 December 2018)	9	–	–	–	9
	1,499	5,343	454	186	7,482
Independent non-executive directors:					
Mr. Goh Gen Cheung	144	–	–	–	144
Mr. James Chan	144	–	–	–	144
Mr. Zhu Wuxiang	144	–	–	–	144
Mr. Song Lishui	144	–	–	–	144
Mr. Xie Ming	144	–	–	–	144
	720	–	–	–	720
Total	2,219	5,343	454	186	8,202

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS' REMUNERATION (continued)

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance-related bonus HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2017					
Executive directors:					
Mr. Qian Xu	180	1,828	819	–	2,827
Mr. Siu Kin Wai	180	–	210	–	390
Mr. Ang Renyi	144	–	–	–	144
Mr. Yu Luning	144	–	–	–	144
Mr. Hu Yebi	144	–	–	–	144
Mr. Li Changfeng	144	661	594	99	1,498
Mr. Dong Qilin	144	–	–	–	144
Mr. Zhao Jiansuo	144	–	–	–	144
Mr. Li Shuping	144	–	–	–	144
Mr. Cheng Ching Fu (appointed on 7 July 2017)	70	576	79	9	734
Mr. Wan Lee Cham (resigned on 7 July 2017)	72	488	77	9	646
	1,510	3,553	1,779	117	6,959
Independent non-executive directors:					
Mr. Goh Gen Cheung	144	–	–	–	144
Mr. James Chan	144	–	–	–	144
Mr. Zhu Wuxiang	144	–	–	–	144
Mr. Song Lishui	144	–	–	–	144
Mr. Xie Ming (appointed on 15 May 2017)	91	–	–	–	91
Mr. Chan Yuk Cheung (resigned on 15 May 2017)	60	–	–	–	60
	727	–	–	–	727
Total	2,237	3,553	1,779	117	7,686

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS' REMUNERATION (continued)

Notes:

(a) Certain executive directors of the Company are entitled to bonus payments which are determined by reference to the performance of the Group and individual's performance.

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2018 included three (2017: two) directors, details of whose remuneration are set out in note 9 above. The remuneration of each of the remaining two (2017: three) non-director, highest paid employees for the year fells within the band of HK$1,000,001 to HK$1,500,000 and details of their remuneration for the year are as follows:

	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,606**	3,358
Pension scheme contributions	**297**	334
	2,903	3,692

11. INCOME TAX

An analysis of the Group's income tax is as follows:

	2018	2017
	HK$'000	HK$'000
Current – Mainland China		
Charge for the year	**36,082**	33,265
Overprovision in prior years	**–**	(424)
Current – Cambodia		
Charge for the year	**3,293**	–
Deferred (note 37)	**176,954**	(29,738)
Total tax expense for the year	**216,329**	3,103

Notes:

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

The PRC and Cambodia corporate income tax provisions in respect of operations in Mainland China and Cambodia are calculated at the applicable tax rates on the estimated assessable profits for the year based on the prevailing legislation, interpretations and practices in respect thereof.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. INCOME TAX (continued)

Notes: (continued)

(b) A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory tax rates of the jurisdictions in which the Company and majority of its subsidiaries operate to the tax expense at the effective tax rates, and a reconciliation of the applicable tax rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Year ended 31 December 2018

	Hong Kong		Mainland China		Cambodia		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(393,833)		693,897		16,465		316,529	
Tax expense/(credit) at the statutory tax rate	(64,982)	16.5	173,474	25.0	3,293	20.0	111,785	35.3
Profit attributable to joint ventures and associates	(745)	0.2	(42,226)	(6.1)	–	–	(42,971)	(13.6)
Income not subject to tax	(15,043)	3.8	(4,222)	(0.6)	–	–	(19,265)	(6.1)
Expenses not deductible for tax	80,770	(20.5)	55,571	8.0	–	–	136,341	43.1
Tax losses not recognised as deferred tax assets	–	–	33,117	4.8	–	–	33,117	10.5
Tax losses utilised from previous periods	–	–	(2,678)	(0.4)	–	–	(2,678)	(0.8)
Tax expense at the Group's effective tax rate	–	–	213,036	30.7	3,293	20.0	216,329	68.3

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. INCOME TAX (continued)

Notes: (continued)

(b) (continued)

Year ended 31 December 2017

	Hong Kong		Mainland China		Cambodia		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(335,859)		63,662		570,884		298,687	
Tax expense/(credit) at the statutory tax rate	(55,416)	16.5	15,916	25.0	97,050	17.0	57,550	19.3
Profit attributable to joint ventures and associates	–	–	(35,553)	(55.8)	–	–	(35,553)	(11.9)
Income not subject to tax	(28,976)	8.6	(12,303)	(19.3)	(97,072)	(17.0)	(138,351)	(46.3)
Expenses not deductible for tax	84,392	(25.1)	25,728	40.4	22	–	110,142	36.8
Tax losses not recognised as deferred tax assets	–	–	14,448	22.7	–	–	14,448	4.8
Tax losses utilised from previous periods	–	–	(4,709)	(0.7)	–	–	(4,709)	(1.6)
Adjustment in respect of current tax of previous periods	–	–	(424)	–	–	–	(424)	(0.1)
Tax expense at the Group's effective tax rate	–	–	3,103	4.9	–	–	3,103	1.0

The share of income tax attributable to a joint venture and associates amounting to HK$60,035,000 (2017: HK$31,694,000) and HK$12,836,000 (2017: HK$26,634,000), respectively, are included in "Share of profits and losses of joint ventures and associates" on the face of the consolidated statement of profit or loss.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to shareholders of the Company and the weighted average number of 6,883,302,462 (2017: 6,822,201,563) ordinary shares in issue during the year.

In respect of the diluted earnings/(loss) per share amounts for the years ended 31 December 2018 and 2017, no adjustment has been made to the basic earnings/(loss) per share amounts presented as the impact of the share options outstanding during these years and the convertible bonds outstanding during the prior year had either no diluting effect or an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT

	Hotel property HK$'000	Buildings and warehouses HK$'000 (note)	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment, and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2018							
At 1 January 2018:							
Cost	669,963	252,573	18,192	78,227	19,487	11,413	1,049,855
Accumulated depreciation	(57,225)	(18,804)	(8,533)	(32,589)	(6,416)	–	(123,567)
Net carrying amount	612,738	233,769	9,659	45,638	13,071	11,413	926,288
Net carrying amount:							
At 1 January 2018	612,738	233,769	9,659	45,638	13,071	11,413	926,288
Transfer from investment properties (note 14)	–	308,175	–	–	–	–	308,175
Additions	–	–	2,615	265	4,217	1,048	8,145
Depreciation provided during the year	(16,546)	(21,824)	(2,129)	(2,952)	(3,131)	–	(46,582)
Disposal/write-off	–	–	(165)	(151)	(569)	–	(885)
Reclassification upon completion	–	–	909	–	–	(909)	–
Exchange realignment	(31,253)	(23,759)	(363)	(2,818)	(804)	(558)	(59,555)
At 31 December 2018	564,939	496,361	10,526	39,982	12,784	10,994	1,135,586
At 31 December 2018:							
Cost	635,060	562,270	20,017	75,247	24,837	10,994	1,328,425
Accumulated depreciation	(70,121)	(65,909)	(9,491)	(35,265)	(12,053)	–	(192,839)
Net carrying amount	564,939	496,361	10,526	39,982	12,784	10,994	1,135,586

NOTES TO FINANCIAL STATEMENTS

31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Hotel property HK$'000	Buildings HK$'000 (note)	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment, and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2017							
At 1 January 2017:							
Cost	622,840	226,193	11,536	62,852	15,432	5,266	944,119
Accumulated depreciation	(37,629)	(9,882)	(4,952)	(14,987)	(2,831)	–	(70,281)
Net carrying amount	585,211	216,311	6,584	47,865	12,601	5,266	873,838
Net carrying amount:							
At 1 January 2017	585,211	216,311	6,584	47,865	12,601	5,266	873,838
Acquisition of subsidiaries classified as business combinations (note 42(a))	–	–	–	114	–	–	114
Acquisition of subsidiaries classified as acquisition of assets and liabilities (note 42(b))	–	–	–	–	2	801	803
Transfer from investment properties (note 14)	–	3,645	–	–	–	–	3,645
Additions	–	3,462	7,361	4,949	2,457	4,409	22,638
Depreciation provided during the year	(16,085)	(6,055)	(4,601)	(10,623)	(2,982)	–	(40,346)
Disposals/write-off	–	–	–	(56)	(135)	–	(191)
Exchange realignment	43,612	16,406	315	3,389	1,128	937	65,787
At 31 December 2017	612,738	233,769	9,659	45,638	13,071	11,413	926,288
At 31 December 2017:							
Cost	669,963	252,573	18,192	78,227	19,487	11,413	1,049,855
Accumulated depreciation	(57,225)	(18,804)	(8,533)	(32,589)	(6,416)	–	(123,567)
Net carrying amount	612,738	233,769	9,659	45,638	13,071	11,413	926,288

Note: At 31 December 2018, certain buildings and warehouses of the Group with an aggregate net carrying amount of HK$297,848,000 (2017: HK$58,545,000) were pledged to secure certain bank loans granted to the Group (note 30(a)).

NOTES TO FINANCIAL STATEMENTS

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14. INVESTMENT PROPERTIES

	Notes	Completed HK$'000	Under construction HK$'000	Total HK$'000
Carrying amount as at 1 January 2017		**5,382,761**	**744,075**	**6,126,836**
Acquisition of subsidiaries classified as business combinations	42(a)	**177,332**	**180,115**	**357,447**
Acquisition of subsidiaries classified as acquisition of assets and liabilities	42(b)	**176,894**	**106,858**	**283,752**
Additions		**2,507**	**377,928**	**380,435**
Reclassification upon completion of construction		**810,470**	**(810,470)**	**–**
Net gain/(loss) on fair value adjustments		**(113,428)**	**2,856**	**(110,572)**
Transfer to owner-occupied property	13	**(3,645)**	**–**	**(3,645)**
Exchange realignment		**435,403**	**56,956**	**492,359**
Carrying amount as at 31 December 2017 and 1 January 2018		**6,868,294**	**658,318**	**7,526,612**
Additions		**29,021**	**398,890**	**427,911**
Reclassification upon completion of construction		**75,910**	**(75,910)**	**–**
Interest capitalised	7	**–**	**5,292**	**5,292**
Net gain on fair value adjustments		**442,497**	**35,556**	**478,053**
Transfer to owner-occupied properties	13, 15	**(339,101)**	**–**	**(339,101)**
Exchange realignment		**(387,780)**	**(74,564)**	**(462,344)**
Carrying amount as at 31 December 2018		**6,688,841**	**947,582**	**7,636,423**

Notes:

(a) At 31 December 2018, the Group's investment properties consisted of thirteen (2017: thirteen) completed properties and six (2017: seven) properties under construction.

The completed investment properties are leased to third parties and related companies under operating leases, further summary details of which are included in note 44(a) to the financial statements.

At 31 December 2018, certain investment properties of the Group with an aggregate carrying amount of HK$6,183,525,000 (2017: HK$6,497,055,000) were pledged to secure certain bank loans granted to the Group (note 30(a)).

(b) The Group's investment properties were revalued on 31 December 2018 based on valuations performed by CHFT Advisory and Appraisal Ltd., independent professionally qualified valuers, at HK$7,636,423,000 (2017: HK$7,526,612,000). Each year, the Group's senior management decides which external valuers to be appointed for the external valuations of the Group's investment properties. Selection criteria include market knowledge, independence and whether professional standards are maintained. The Group's financial controller has on-going discussions with the valuers on the valuation assumptions and valuation results when the valuation is performed.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

14. INVESTMENT PROPERTIES (continued)

Notes: (continued)

(b) (continued)

Fair value hierarchy disclosure

At 31 December 2018, fair value measurements of all of the Group's investment properties are using significant unobservable inputs (Level 3) as defined in HKFRS 13. During the year, there were no transfers of fair value measurements between Level 1 (quoted prices in active markets) and Level 2 (significant observable inputs) and no transfers into or out of Level 3.

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

			Input/range of input	
Valuation techniques	**Significant unobservable inputs**		**2018**	2017
Completed investment properties				
Direct comparison method	(i)	Price per square metre (sq.m)	**RMB3,000-RMB85,180 per sq.m**	RMB2,700-RMB89,000 per sq.m
Income capitalisation method	(i)	Capitalisation rate (%)	**5.5-11%**	5.5-10.75%
	(ii)	Monthly rental income per sq.m	**RMB44-RMB540 per sq.m**	RMB42-RMB843 per sq.m
Investment properties under construction				
Residual method	(i)	Price per sq.m	**RMB3,110-RMB3,738 per sq.m**	RMB3,300 per sq.m

Under the direct comparison method, comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital value.

The income capitalisation method was used to cross-check the valuation results from the direct comparison method as the properties are held for earning rental income. The income capitalisation method is applied based on net rental income that can be generated from the properties under the master lease to be executed for the properties with the allowance on the reversionary interest upon expiry of the master lease.

The above-mentioned valuations have been made on the assumption that the Group sells the properties in the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of the properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no allowance has been made for the properties to be sold in one lot or to a single purchaser.

An increase (decrease) in the capitalisation rate in isolation would result in a decrease (increase) in the fair value of the investment properties, while an increase (decrease) in the annual rental income and price per square metre in isolation would each result in an increase (decrease) in the fair value of the investment properties.

NOTES TO FINANCIAL STATEMENTS

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15. PREPAID LAND LEASE PAYMENTS

	Notes	2018 HK$'000	2017 HK$'000
Carrying amount as at 1 January		**61,167**	24,385
Acquisition of subsidiaries classified as acquisition of assets and liabilities	42(b)	**–**	36,011
Transfer from investment properties	14	**30,926**	–
Amortisation provided during the year		**(2,986)**	(1,411)
Exchange realignment		**(2,985)**	2,182
Carrying amount as at 31 December		**86,122**	61,167
Current portion included in prepayments, deposits and other receivables	25	**(3,050)**	(2,433)
Non-current portion		**83,072**	58,734

Notes:

(a) At 31 December 2018, certain of the Group's prepaid land lease payments with a carrying amount of HK$18,201,000 (2017: HK$19,575,000) were sub-leased from certain grantees of the land use rights and therefore, the relevant land use rights were not registered under the name of the Group.

(b) At 31 December 2018, certain land use right of the Group with an aggregate carrying amount of HK$32,265,000 (2017: Nil) were pledged to secure certain bank loans granted to the Group (note 30(a)).

16. GOODWILL

	2018			2017		
	Properties business HK$'000	**Logistics business HK$'000**	**Total HK$'000**	Properties business HK$'000	Logistics business HK$'000	Total HK$'000
Cost and net carrying amount as at 1 January	**44,031**	**142,073**	**186,104**	44,031	98,578	142,609
Acquisition of subsidiaries classified as business combinations (note 42(a))	**–**	**–**	**–**	–	43,495	43,495
Cost and net carrying amount as at 31 December	**44,031**	**142,073**	**186,104**	44,031	142,073	186,104

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16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following operating segments for impairment testing:

- Properties business
- Logistics business

(i) *Properties business*

The recoverable amount of the properties business has been determined by reference to the fair value less costs of disposal of each relevant business unit comprising the segment.

In assessing the fair value less costs of disposal of each individual business unit, references were made to the valuation of the investment properties, properties held for sale, buildings and/or hotel property held and the carrying amount of the business unit's other assets and liabilities which approximated to their fair value, excluding any deferred tax liabilities initially recognised on acquisition of the relevant business unit. Fair values of the properties were determined based on valuations performed by independent valuers at year end or close to year end using direct comparison method, which has used significant unobservable inputs (Level 3 of the fair value hierarchy as defined in HKFRS 13).

Based on the result of the impairment testing of goodwill, in the opinion of the directors, no impairment provision was considered necessary for the Group's goodwill which has been allocated to the properties business segment as at 31 December 2018.

(ii) *Logistics business*

The recoverable amount of the logistics business has been determined by reference to the fair value less costs of disposal of each relevant business unit comprising the segment.

In assessing the fair value less costs of disposal of each individual business unit, references were made to the valuation of the investment properties and warehouses in property, plant and equipment, and the carrying amount of the business unit's other assets and liabilities which approximated to their fair value, excluding any deferred tax liabilities initially recognised on acquisition of the relevant business unit. Fair values of the properties were determined based on valuations performed by independent valuers at year end using direct comparison method which have used significant unobservable inputs (Level 3 of the fair value hierarchy as defined in HKFRS 13).

Based on the result of the impairment testing of goodwill, in the opinion of the directors, no impairment provision was considered necessary for the Group's goodwill which has been allocated to the logistics business segment as at 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

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16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Key assumptions used in assessing the fair value less costs of disposal

The following describes each key assumption adopted by management for the purpose of impairment testing of goodwill:

- Fair value change

  There is no major material adverse change in the fair value of the property held by each cash-generating unit from the date of valuation.

- Realisation of assets and liabilities

  The identifiable assets and liabilities, excluding deferred tax liabilities recognised arising from the acquisition, can be realised at their book values.

- Business environment

  There are no major changes in the existing political, legal and economic conditions in Mainland China.

17. INTERESTS IN JOINT VENTURES

	Notes	**2018** **HK$'000**	2017 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets		**1,371,352**	913,640
Goodwill on acquisition		**19,241**	8,595
	(b)	**1,390,593**	922,235
Due from a joint venture, included in non-current assets	(c)	**405,329**	918,173
Interests in joint ventures, included in non-current assets		**1,795,922**	1,840,408
Due from a joint venture, included in current assets	(c)	**153,813**	38,605
Due to a joint venture, included in current liabilities	(d)	**(127,239)**	–
Total interests in joint ventures		**1,822,496**	1,879,013

NOTES TO FINANCIAL STATEMENTS

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17. INTERESTS IN JOINT VENTURES (continued)

Notes:

(a) Particulars of the Group's joint ventures, which are all indirectly held by the Company, are as follows:

Company name	Place of registration and business	Registered capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
北京北建通成國際物流有限公司 ("BIPL")*	PRC/Mainland China	RMB810,000,000	76	76	76	Logistic facilities development and leasing
北京興奧投資管理有限公司*	PRC/Mainland China	RMB50,000,000	51	50	51	Investment management
天津港北建通城國際物流有限公司#	PRC/Mainland China	RMB240,000,000	50	50	50	Logistic facilities development

* In the opinion of the directors, notwithstanding that the Group has over 50% voting power and/or ownership interest, the Group only has joint control over these entities because unanimous approval from all directors is required for any resolution to pass at their directors' meetings.

The Group acquired this joint venture from BIPL in December 2018 at a consideration of RMB111,045,000 (equivalent to HK$126,380,000). At the date of approval of these financial statements, the consideration has not been settled.

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17. INTERESTS IN JOINT VENTURES (continued)

Notes: (continued)

(b) Joint ventures' summarised financial information disclosure

BIPL is considered a material joint venture of the Group and was accounted for using the equity method in the consolidated financial statements. The following tables illustrate the summarised financial information of BIPL, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	BIPL	
	2018	2017
	HK$'000	HK$'000
Summarised statement of financial position of the material joint venture		
Current assets	**499,701**	379,392
Non-current assets	**3,325,971**	2,553,579
Current liabilities	**(329,195)**	(284,287)
Non-current liabilities	**(1,851,835)**	(1,462,277)
Net assets	**1,644,642**	1,186,407
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**152,057**	32,388
Current financial liabilities (excluding trade and other payables and provisions)	**–**	(147,110)
Reconciliation to the Group's investment in the material joint venture:		
Proportion of the Group's ownership	**76%**	76%
Group's share of net assets of the joint venture, excluding goodwill	**1,249,928**	901,669
Goodwill on acquisition	**8,595**	8,595
Carrying amount of the investment	**1,258,523**	910,264

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17. INTERESTS IN JOINT VENTURES (continued)

Notes: (continued)

(b) Joint ventures' summarised financial information (continued)

	BIPL	
	2018	2017
	HK$'000	HK$'000
Summarised statement of profit or loss and other comprehensive income of the material joint venture		
Revenue	**31,766**	–
Interest income	**683**	6,939
Interest expenses	**(15,853)**	(8,807)
Depreciation and amortisation	**(6,387)**	(599)
Other income and expenses, net	**291,230**	161,080
Income tax	**(78,994)**	(41,702)
Profit for the year	**222,445**	116,911
Other comprehensive income/(loss) for the year	**(71,801)**	5,640
Total comprehensive income for the year	**150,644**	122,551
Share of the joint venture's profit for the year	**169,058**	88,851

The following table illustrates the financial information of the Group's joint ventures that are not individually material:

	2018	2017
	HK$'000	HK$'000
Share of the joint ventures' loss for the year and total comprehensive loss for the year	**(1,749)**	(33)
Aggregate carrying amount of the Group's investments in the joint ventures	**132,070**	11,971

(c) The Group's amount due from a joint venture as at 31 December 2018 included entrusted bank loans with an aggregate amount of RMB435,375,000 (equivalent to HK$495,500,000) (2017: RMB768,728,000 (equivalent to HK$922,976,000)) provided by the Group to finance the business development of BIPL. The entrusted bank loans included in current assets bear interest at rates ranging from 4.35% to 4.75% (2017: 4.35%) per annum and are fully repayable within one year from the end of the reporting period. The entrusted bank loans included in non-current assets bear interest at the rate of 4.75% (2017: 4.35% to 4.75%) per annum which are payable in year 2020, except for loans of HK$136,948,000 (2017: HK$144,474,000) which are repayable at the discretion of the joint venture. The remaining balance of HK$22,882,000 (2017: 33,802,000) and HK$40,760,000 (2017: Nil) included in current portion and non-current portion of amounts due from joint ventures, respectively, are unsecured, interest-free and repayable within one year.

(d) The amount due to a joint venture is unsecured, interest-free and has no fixed terms of repayment.

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18. INTERESTS IN ASSOCIATES

	Notes	2018 HK$'000	2017 HK$'000
Investments in associates, included in non-current assets			
Share of net assets		**768,882**	669,739
Goodwill on acquisition		**113,442**	113,442
Total investments in associates		**882,324**	780,181
Provision for impairment	(c)	**(4,534)**	(4,534)
	(b)	**877,790**	775,647
Due from associates, included in current assets	(d)	**29,126**	36,691
Total interests in associates		**906,916**	812,338

Notes:

(a) Particulars of the Group's principal associates, which are all indirectly held by the Company, are as follows:

Company name	Place of registration and business	Registered capital	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Enterprises Medical and Health Industry Group Limited ("BE M&H")	Cayman Islands/ Mainland China	HK$1,209,648,000	15.59%*	Properties development and provision of medical care services
北控城投控股集團有限公司	PRC/Mainland China	RMB380,000,000	35%	Primary land development

* In the opinion of the directors, notwithstanding that the Group has only 15.59% equity interest in BE M&H, the Group has been able to exercise significant influence over BE M&H because the Group has appointed three representatives as directors of BE M&H since 22 May 2017, at which time, the investment in BE M&H, which was previously accounted for as an equity investment at fair value through other comprehensive income, was reclassified as an investment in an associate. As a result, based on the fair value of the investment of HK$519,888,000 at the date of reclassification, a gain on deemed acquisition of an associate of HK$138,000 was recognised in profit or loss in the prior year and the then accumulated decline in fair value of the investment since acquisition of HK$132,300,000 was reclassified from the financial asset revaluation reserve to retained profits in 2017.

Shares of BE M&H are listed on the Main Board of the Stock Exchange. The market value of the shares of BE M&H held by the Group as at 31 December 2018, based on its then quoted market price, amounted to approximately HK$218,295,000 (2017: HK$363,825,000).

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18. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(a) (continued)

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

(b) Associates' summarised financial information disclosure

BE M&H was considered a material associate of the Group and was accounted for using the equity method in the consolidated financial statements.

The following tables illustrate the summarised financial information of BE M&H, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	BE M&H	
	2018	2017
	HK$'000	HK$'000
Summarised statement of financial position of the material associate		
Current assets	**1,338,296**	1,861,130
Non-current assets	**2,696,743**	2,235,852
Current liabilities	**(351,939)**	(412,711)
Non-current liabilities	**(269,036)**	(351,726)
Non-controlling interests	**(318,490)**	(206,790)
Net assets	**3,095,574**	3,125,755
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**764,118**	471,436
Current financial liabilities	**(204,525)**	(180,538)
Reconciliation to the Group's investment in the material associate:		
Proportion of the Group's ownership	**15.59%**	15.62%
Group's share of net assets of the associate, excluding goodwill	**482,600**	488,243
Goodwill on acquisition	**113,442**	113,442
Carrying amount of the investment	**596,042**	601,685

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18. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(b) Associates' summarised financial information disclosure (continued)

	BE M&H	
	2018	2017
	HK$'000	HK$'000
Revenue	**178,885**	80,581
Profit for the year	**30,872**	537,176
Other comprehensive income/(loss) for the year	**(115,419)**	115,532
Total comprehensive income/(loss) for the year	**(84,547)**	652,708
Share of associate's profit for the year	**7,498**	55,201

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018	2017
	HK$'000	HK$'000
Share of the associates' loss for the year	**(1,390)**	(1,841)
Share of the associates' other comprehensive loss for the year	**(1,567)**	–
Aggregate carrying amount of the Group's investments in the associates	**281,748**	173,962

(c) The movement in provision for impairment of an investment in an associate is as follows:

	2018	2017
	HK$'000	HK$'000
At 1 January	**4,534**	–
Impairment loss recognised (note 8)	**–**	4,534
At 31 December	**4,534**	4,534

(d) The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. Based on the financial position and operating performance of the associates, in the opinion of the directors, the amounts are fully recoverable and no expected credit loss on them is provided.

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19. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018	2017
	HK$'000	HK$'000
Listed equity investment, at fair value: CAQ Holdings Limited	**22,787**	52,964

Notes:

(a) The above equity investment was irrevocably designated as at fair value through other comprehensive income as the Group considered the investment to be strategic in nature and not held for trading.

(b) The fair value of the listed equity investment is determined by reference to its published quotations. The market value of the listed equity investment as at the date of approval of these financial statements was approximately HK$22,787,000 (2017: HK$26,184,000).

20. DEPOSITS PAID FOR ACQUISITIONS OF SUBSIDIARIES

The deposits as at 31 December 2017 were paid to independent third parties for the acquisitions of various equity interests in logistic businesses in Mainland China. During the year, the transactions were terminated and the deposits were refunded.

21. LAND HELD FOR DEVELOPMENT OR SALE

Land held for development or sale represented the acquisition cost, property transfer tax and development cost in relation to the Group's land development projects in Cambodia and the PRC. Land held by the Group mainly includes freehold land located in Cambodia with a total area of 14.67 square kilometres (2017:14.87 square kilometres) which represented around 90% of total carrying amount of land held for development or sale as at 31 December 2018. They were classified as non-current assets as at 31 December 2018 as they are expected to be completed outside normal operating cycle and recoverable after one year from the end of the reporting period.

22. PROPERTIES HELD FOR SALE

Properties held for sale of the Group as at 31 December 2018 and 2017 represented certain portion of the Group's shopping mall in Guangzhou, the PRC, which are held by the Group for ultimate transfer to certain indigenous properties owners (note 32) as compensation. At 31 December 2018, these properties were pledged to secure certain bank loans granted to the Group (note 30(a)).

23. INVENTORIES

Inventories of the Group are raw materials, merchandised goods and consumable stocks held for use by the Group's hotel operation.

24. TRADE RECEIVABLES

Trade receivables of the Group included rental income receivable from tenants of the Group's investment properties, service fees receivable from customers of the Group's logistic centres and room charges and service fees arising from the Group's hotel operation. Overdue trade receivables were not impaired as they were fully collateralised by the security deposits paid by the relevant customers.

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24. TRADE RECEIVABLES (continued)

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

	2018 HK$'000	2017 HK$'000
Within one month	**7,934**	3,792
One to three months	**2,480**	4,053
Over three months	**219**	3,472
	10,633	11,317

Management estimated expected credit losses on trade receivables are close to zero as the trade receivables are secured by cash deposits from customers and have no recent history of default.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2018 HK$'000	2017 HK$'000
Prepayments for construction projects		**20,463**	56,989
Other prepayments		**20,232**	10,415
Prepaid land lease payments – current portion	15	**3,050**	2,433
Deposits and other receivables	(a)	**22,296**	68,335
Due from former equity holders of subsidiaries		**116**	102,954
Value-added tax recoverable		**64,651**	14,146
		130,808	255,272
Portion classified as current assets		**(101,127)**	(197,241)
Non-current portion		**29,681**	58,031

Notes:

(a) Deposits and other receivables mainly represent utility deposit and construction deposit. An impairment analysis is performed at each reporting date by considering the expected credit losses which are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

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

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26. BALANCES WITH OTHER RELATED PARTIES

	Notes	2018 HK$'000	2017 HK$'000
Due from other related parties:	(a)		
Non-controlling equity holders of subsidiaries		–	3,348
Due to other related parties:	(b)		
The immediate holding company		**747**	434
Fellow subsidiaries		–	909
Non-controlling equity holders of subsidiaries		**619,101**	610,494
		619,848	611,837
Portion classified as current liabilities		**(167,900)**	(163,386)
Non-current portion		**451,948**	448,451

Notes:

(a) The amounts due from other related parties are unsecured, interest-free and have no fixed terms of repayment.

(b) The amounts due to non-controlling equity holders of subsidiaries included in non-current liabilities are unsecured, interest-free and repayable after one year from the end of the reporting period, except for loans of HK$4,097,000 (2017: HK$4,063,000) are unsecured, bear interest at the rate of 4.35% to 4.75% (2017: 4.35% to 4.75%) per annum and repayable after one year from the end of the reporting period..

The balances due to other related companies are unsecured, interest-free and have no fixed terms of repayment.

27. PLEDGED AND RESTRICTED BANK DEPOSITS, AND CASH AND CASH EQUIVALENTS

	Notes	2018 HK$'000	2017 HK$'000
Deposits placed with a fellow subsidiary	46(a)(ii)	**236,970**	130,678
Time deposits		**588,372**	407,264
Other cash and bank balances		**995,018**	1,190,772
Total cash and bank balances	(a)	**1,820,360**	1,728,714
Less: Pledged bank balances, included in non-current assets	(b)	**(10,109)**	(2,625)
Pledged bank balances, included in current assets	(b)	**(30,244)**	(38,667)
Restricted bank deposits for capital contribution to an associate, included in non-current assets	(c)	**(52,650)**	(52,650)
Restricted bank deposits for disposal of subsidiaries, included in current assets	29(a)	**(625,955)**	–
Cash and cash equivalents		**1,101,402**	1,634,772

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27. PLEDGED AND RESTRICTED BANK DEPOSITS, AND CASH AND CASH EQUIVALENTS (continued)

Notes:

(a) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

At 31 December 2018, the cash and bank balances of the Group denominated in RMB amounted to HK$1,448,303,000 (2017: HK$1,046,409,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) At 31 December 2018, the usage of the Group's bank balances amounting to HK$40,353,000 (2017: HK$41,292,000) were restricted as to their use in accordance with the bank loan agreements of certain bank loans granted to the Group (note 30(a)).

(c) At 31 December 2018, the usage of the Group's bank balance amounting to HK$52,650,000 (2017: HK$52,650,000) was restricted as to their use in accordance with a subscription agreement entered into with certain third parties for the Group's capital injection into an associate. The bank balance was held by an escrow agent and the Group has control over the bank balance. The long-stop date of the capital contribution is end of March 2019. Further details of the subscription agreement are set out in the Company's announcements dated 27 January 2017, 7 July 2017, 22 December 2017 and 19 October 2018.

28. TRADE PAYABLES

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

	2018 **HK$'000**	2017 HK$'000
Within one month	**5,445**	4,425
One to three months	**3,609**	4,850
Over three months	**499**	–
	9,553	9,275

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

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29. OTHER PAYABLES AND ACCRUALS

	Notes	2018 HK$'000	2017 HK$'000
Interest payable of guaranteed bonds		**98,548**	12,519
Accruals		**40,329**	29,664
Receipts in advance and rental deposits received from tenants		**70,571**	150,536
Other payables		**168,172**	257,872
Construction cost payables		**97,876**	167,193
Consideration payables for business combinations		**–**	25,090
Deposit received for disposal of subsidiaries	(a)	**625,955**	–
Deferred revenue – current portion	35	**4,801**	52,112
Defined benefit obligations – current portion	36(b)	**376**	396
		1,106,628	695,382

Notes:

(a) On 3 August 2018, China Logistics, a 65% owned subsidiary of the Company, and an independent third party (the "Potential Buyer", together with China Logistics, the "Parties") entered into a framework agreement (the "Framework Agreement"). Pursuant to the Framework Agreement, the Parties intend to jointly establish an entity outside the PRC to act as a general partner, which will, together with each of the Parties (and/or its affiliate) as limited partners, jointly establish a privately offered fund structure as a limited partnership outside the PRC (the "Fund"). It is intended that the Fund or its subsidiary shall act as the purchaser in the acquisition of equity interests in a number of subsidiaries directly or indirectly owned by China Logistics and the Company which own certain plots of land in the PRC (the "Proposed Disposal", together with the buildings and structures thereon, the "Properties"). The consideration for the Proposed Disposal is approximately RMB6.70 billion (equivalent to approximately HK$7.70 billion) which is determined based on the value of the Properties as set out in the Framework Agreement. The Framework Agreement is not legally binding. At 31 December 2018, a deposit of RMB550 million (equivalent to approximately HK$625,955,000) was received from the Potential Buyer and deposited into a bank account jointly operated by China Logistics and the Potential Buyer (note 27).

Subsequent to the reporting period, on 1 February 2019, the Parties entered into a supplemental agreement pursuant to which the expiry date of the exclusivity period shall be further extended to 3 May 2019 and China Logistics shall return part of the deposit, being RMB450 million, without interest to the Potential Buyer within ten business days after execution of the supplemental agreement. The partial refund of the deposit was made on 18 February 2019 and the amount of the deposit was reduced to RMB100 million as at the date of approval of these financial statements.

At the date of approval of these financial statements, the transaction has not been completed and is subject to fulfilment of certain conditions precedent and further negotiation between the Parties.

(b) Other payables are non-interest-bearing and have an average term of three months.

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30. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank loans:		
Secured (note (a))	**1,776,225**	1,715,133
Unsecured	**1,733,773**	1,342,273
Total bank borrowings	**3,509,998**	3,057,406
Analysed into amounts repayable:		
Within one year or on demand	**1,115,297**	167,523
In the second year	**110,337**	1,053,131
In the third to fifth years, inclusive	**2,284,364**	1,560,532
After five years	**–**	276,220
Total bank borrowings	**3,509,998**	3,057,406
Portion classified as current liabilities	**(1,115,297)**	(167,523)
Non-current portion	**2,394,701**	2,889,883

Notes:

(a) The secured bank loans of the Group are secured by the following assets:

		Carrying amount	
	Notes	2018 HK$'000	2017 HK$'000
Buildings and warehouses	13	**297,848**	58,545
Investment properties	14(a)	**6,183,525**	6,497,055
Prepaid land lease payments	15(b)	**32,265**	–
Properties held for sale	22	**91,995**	97,476
Bank balances	27(b)	**40,353**	41,292
Net asset value of subsidiaries	1	**3,117,486**	3,018,350

In addition, the Group's bank loans are guaranteed by the Company and directors of certain subsidiaries.

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30. BANK BORROWINGS (continued)

Notes: (continued)

(b) The bank borrowings were denominated in the following currencies:

	Carrying amount	
	2018	2017
	HK$'000	HK$'000
HK$	**261,585**	225,000
RMB	**1,279,008**	1,175,333
US$	**1,969,405**	1,657,073
	3,509,998	3,057,406

Except for bank loans of HK$125,191,000 (2017: HK$432,260,000) in total which bear interest at fixed rates of 6.80% (2017 5.34% to 6.80%) per annum, all other bank loans of the Group as at 31 December 2018 and 2017 are floating rate loans with interests at specified periods' LIBOR or HIBOR or the benchmark lending rate of the People's Bank of China plus a margin.

31. GUARANTEED BONDS

	2018	2017
	HK$'000	HK$'000
5.50% guaranteed bonds due 2018	**–**	2,320,180
4.375% guaranteed bonds due 2020	**2,318,476**	2,330,206
9% guaranteed bonds due 2020	**1,927,560**	–
	4,246,036	4,650,386
Portion classified as current liabilities	**–**	(2,320,180)
Non-current portion	**4,246,036**	2,330,206

Notes:

(a) The Group's guaranteed bonds as at 31 December 2018 and 2017 are all denominated in US$ and guaranteed by the Company, and interest thereon are payable semi-annually in arrear.

(b) The guaranteed bonds are subject to redemption by the Group, in whole but not in part, at a redemption amount equal to the Make-Whole Price (as defined in the terms and conditions of the respective bonds). They also contain a provision for redemption at the option of the holders of the respective bonds at 101% of the principal amount, together with interest accrued to the date of redemption, upon a change of control (as defined in terms and conditions of the respective bonds) with respect to the Company. Within the best knowledge of the directors, the above event did not take place during the year and as at the date of approval of these financial statements. Further details of the bonds outstanding as at 31 December 2018 are set out in the Company's announcements dated 2 March 2017 and 10 August 2018.

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32. PROVISION FOR COMPENSATION

	2018 HK$'000	2017 HK$'000
At 1 January	**243,733**	222,174
Additional/(reversal of) provision (note 8)	**(1,009)**	10,155
Settlement during the year	**(4,671)**	(7,793)
Exchange realignment	**(12,467)**	19,197
At 31 December	**225,586**	243,733

The provision for compensation was a provision for resettlement compensations payable to certain indigenous properties owners and tenants (the "Concerned Residents") affected by the construction works of a residential and commercial complex (the "Metro Mall") undertaken by Guangzhou Guangming, a subsidiary of the Company, in prior years.

During the construction of the Metro Mall by Guangzhou Guangming in the 1990s, properties owned/rented by the Concerned Residents were demolished and it was agreed between the Concerned Residents and Guangzhou Guangming that new residential flats to be built by Guangzhou Guangming will be used as compensation to the Concerned Residents for the demolished properties. However, due to changes in the development plan, no residential flats can be built and Guangzhou Guangming was unable to resettle those Concerned Residents in the agreed manner. In prior years, some of the Concerned Residents had lodged litigations against Guangzhou Guangming for its breach of agreements and requested monetary compensation. Guangzhou Guangming lost some of those lawsuits and was required to pay compensation together with overdue penalties.

In this regard, Guangzhou Guangming has since been in negotiation with certain local government authorities for an arrangement (the "Compensation Arrangement") to construct resettlement buildings for the Concerned Residents. Under the Compensation Arrangement, resettlement buildings will be constructed and allocated to each Concerned Resident based on their respective areas of the demolished properties they previously owned. Guangzhou Guangming shall then be discharged from its legal obligation for the replacement flats to the Concerned Residents. The Compensation Arrangement has not been finalised as at the date of approval of these financial statements and is still subject to further negotiation with the local government authorities.

In arriving at the best estimate of the amount of the provision for the resettlement compensation, management of the Group had made reference to the latest plan of the Compensation Arrangement, judgements of the lawsuits and all other available information. As a result of the new development on the latest plan of the Compensation Arrangement, in the opinion of the directors, the amount of compensation cost that the Group may incur would be HK$225,586,000 (2017: HK$243,733,000) as at 31 December 2018.

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33. INVESTMENT DEPOSITS RECEIVED

On 15 December 2017, the Group entered into a subscription agreement with two independent third parties, pursuant to which (i) each of the two investors will subscribe for new shares of a then wholly-owned subsidiary of the Group (the "Subsidiary") for a 6.88% shareholding in the Subsidiary at a cash consideration of RMB50 million; and (ii) upon the completion of the aforesaid share subscription, the Group will grant to each of the two investors the right (the "Option") to purchase from the Group an additional 6.88% shareholding in the Subsidiary during the six month period after 15 December 2017 at the exercise price stipulated in the subscription agreement. The purpose of this transaction is to raise fund for the Subsidiary to invest in a potential project in Changzhou, the PRC, to expand the Group's business network in the PRC. The share subscriptions were completed on 8 February 2018 and the subscription monies of RMB100 million received in 2017 were accounted for as investment deposits received and carried as non-current liabilities in the consolidated statement of financial position as at 31 December 2017.

As a result of the completion of the share subscriptions on 8 February 2018, the Group's equity interest in the Subsidiary was diluted from 100% to 86.24% without a loss of control and the resulting loss on the deemed disposal of HK$693,000 was recognised directly in equity. In addition, the Group's equity interest in the Subsidiary was further reduced to 72.48% without a loss of control after the two investors exercised the Options to purchase from the Group a total of 13.76% shareholding in the Subsidiary at a total cash consideration of RMB102 million during the year ended 31 December 2018, which resulted in the recognition of a total loss on partial disposals of interest in a subsidiary of HK$22,000 directly in equity.

The value of the Options is considered insignificant to these financial statements.

34. DERIVATIVE FINANCIAL INSTRUMENT

Pursuant to a subscription agreement (the "Agreement") entered into between the Group and the non-controlling shareholder of China Logistics, the non-controlling shareholder of China Logistics was granted a put option by the Company over the 35 ordinary shares of China Logistics it held. According to the terms of the put option, the non-controlling shareholder has the right to sell all the 35 ordinary shares of China Logistics it held to the Company at a predetermined price (RMB888,000,000 plus interest at 7% per annum) when certain conditions are met. The put option was classified as a derivative financial instrument with an initial fair value of HK$67,588,000 and the subsequent change in the fair value of the option will be recognised in profit or loss until the option is exercised by the non-controlling shareholder of China Logistics or expires in accordance with the terms of the Agreement.

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34. DERIVATIVE FINANCIAL INSTRUMENT (continued)

Fair value hierarchy disclosure

At 31 December 2018, the fair value measurement of the Group's derivative financial instrument is using significant unobservable inputs (Level 3) as defined in HKFRS 13. During the year, there were no transfers of fair value measurement between Level 1 (quoted prices in active markets) and Level 2 (significant observable inputs) and no transfers into or out of Level 3.

Reconciliation of the fair value measurement of the put option categorised within Level 3 of the fair value hierarchy is as follows:

	2018	2017
	HK$'000	HK$'000
Carrying amount as at 1 January	**50,947**	54,120
Gain from a fair value adjustment recognised in profit or loss (note 6)	**(30,010)**	(3,173)
Carrying amount as at 31 December	**20,937**	50,947

Below is a summary of the valuation technique used and the key inputs to the valuation:

			Input/range of input	
Valuation technique	**Significant unobservable inputs**		**2018**	2017
Binomial Tree Pricing Method	(i)	Volatility	**44.99%**	46.26%-48.24%
	(ii)	Risk-free rate	**2.73%**	4.00%-4.22%
	(iii)	Price to book value ratio	**1.12**	1.29

The binomial tree pricing model uses an iterative procedure, allowing for the specification of nodes, or points in time, during the time span between the valuation date and the instrument's expiration date. The model reduces possibilities of price changes, removes the possibility for arbitrage, assumes a perfectly efficient market, and shortens the duration of the instrument. Under these simplifications, it is able to provide a mathematical valuation of the instrument at each point in time specified. The binomial model takes a risk-neutral approach to valuation. It assumes that underlying security prices can only either increase or decrease with time until the instrument expires.

An increase (decrease) in the volatility in isolation would result in an increase (decrease) in the fair value of the put option. An increase (decrease) in the risk-free rate or the price to book value ratio in isolation would result in a decrease (increase) in the fair value of the put option.

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35. DEFERRED REVENUE

	2018 HK$'000	2017 HK$'000
Deferred income expected to be recognised in profit or loss:		
Within one year, included in current liabilities under other payables and accruals (note 29)	4,801	52,112
After one year, included in non-current liabilities	210,481	86,940
	215,282	139,052

Deferred revenue of the Group mainly represented government subsidies received in respect of the Group's investments in certain subsidiaries, construction of warehouses and purchase of land use rights and property, plant and equipment in the PRC. These subsidies are recognised in profit or loss on the straight-line basis over the expected useful lives of the underlying assets.

36. DEFINED BENEFIT OBLIGATIONS

Certain employees of BJ Holiday Inn, an indirectly-held wholly-owned subsidiary of the Company, can enjoy retirement benefits after retirement pursuant to certain of its defined benefit plans. The plans are exposed to interest rate risk and the risk of changes in the life expectancy of the employees.

(a) Net benefit expense (recognised in administrative expenses)

	Supplemental post-retirement benefits	
	2018 HK$'000	2017 HK$'000
Current service cost	391	427
Interest cost	712	565
Net benefit expenses	1,103	992

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36. DEFINED BENEFIT OBLIGATIONS (continued)

(b) Present value of the defined benefit obligations

	Supplemental post-retirement benefits	
	2018	2017
	HK$'000	HK$'000
At 1 January	**17,325**	15,948
Net benefit expenses recognised in profit or loss (note (a))	**1,103**	992
Benefit paid	**(557)**	(507)
Actuarial losses/(gains) on obligations recognised in other comprehensive income	**3,153**	(312)
Exchange realignment	**(1,221)**	1,204
At 31 December	**19,803**	17,325
Portion classified as current liabilities, included in other payables and accruals (note 29)	**(376)**	(396)
Non-current portion	**19,427**	16,929

(c) Principal assumptions

The most recent actuarial valuation of the present value of the defined benefit obligations was carried out at 31 December 2018 by Towers Watson & Co., an independent professionally actuarial consulting firm, using the projected unit credit actuarial cost method. The material actuarial assumption used in determining the defined benefit obligations for the Group's plans is as follows:

	2018	2017
Discount rate	**3.50%**	4.25%

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36. DEFINED BENEFIT OBLIGATIONS (continued)

(c) Principal assumptions (continued)

A quantitative sensitivity analysis for the discount rate as at 31 December 2018 and 2017 is shown below:

	Increase in discount rate	Decrease in net defined benefit obligations	Decrease in discount rate	Increase in net defined benefit obligations
	%	HK$'000	%	HK$'000
2018	**0.25**	**(694)**	**(0.25)**	**740**
2017	0.25	(600)	(0.25)	636

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligations as a result of reasonable changes in the key assumption occurring at the end of the reporting period.

At 31 December 2018, the expected cash contribution to be made within the next 12 months out of the defined benefit obligations was HK$376,000 (2017: HK$396,000).

37. DEFERRED TAX

Net deferred tax assets and liabilities recognised in the consolidated statement of financial position are as follows:

	2018	2017
	HK$'000	HK$'000
Deferred tax assets	**28,325**	21,164
Deferred tax liabilities	**(1,589,657)**	(1,466,928)
	(1,561,332)	(1,445,764)

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37. DEFERRED TAX (continued)

The components of deferred tax assets and liabilities and their movements during the year are as follows:

		Attributable to				
	Notes	Government grants HK$'000	Adjustments arising from acquisition of subsidiaries HK$'000	Revaluation of investment properties HK$'000	Available for offsetting against future taxable profit HK$'000	Net deferred tax assets/ (liabilities) HK$'000
At 1 January 2017		–	(275,040)	(480,573)	(2,853)	(752,760)
Net deferred tax credited to profit or loss during the year	11	21,500	–	8,238	–	29,738
Acquisition of subsidiaries classified as business combinations	42(a)	–	(664,597)	–	–	(664,597)
Exchange realignment		(336)	(23,551)	(34,258)	–	(58,145)
At 31 December 2017 and 1 January 2018		**21,164**	**(963,188)**	**(506,593)**	**2,853**	**(1,445,764)**
Net deferred tax credited/(charged) to profit or loss during the year	11	**28,550**	**6,821**	**(209,569)**	**(2,756)**	**(176,954)**
Exchange realignment		**(1,733)**	**17,459**	**45,757**	**(97)**	**61,386**
At 31 December 2018		**47,981**	**(938,908)**	**(670,405)**	**–**	**(1,561,332)**

Notes:

(a) At 31 December 2018, deferred tax assets have not been recognised in respect of unused tax losses of HK$342,312,000 (2017: HK$269,648,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK$267,615,000 (2017: HK$228,461,000) will expire in one to five years.

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

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in Mainland China that are subject to withholding taxes (2017: Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately HK$28,150,000 (2017: HK$13,455,000) in aggregate as at 31 December 2018.

(c) There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders (2017: Nil).

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38. SHARE CAPITAL

Shares

	2018	2017
	HK$'000	HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000
Issued and fully paid:		
6,969,331,680 (2017: 6,852,600,585) ordinary shares of HK$0.10 each	**696,933**	685,260

A summary of movements of the Company's issued capital and share premium account during the years ended 31 December 2018 and 2017 is as follows:

	Number of ordinary shares in issue	**Issued capital**	**Share premium account**	**Total**
		HK$'000	HK$'000	HK$'000
At 1 January 2017	6,766,587,849	676,659	1,705,102	2,381,761
Issue of shares as consideration for the acquisition of subsidiaries (note 42(b))	86,012,736	8,601	24,944	33,545
At 31 December 2017 and 1 January 2018	6,852,600,585	685,260	1,730,046	2,415,306
Issue of shares for the acquisition of a subsidiary (note 42(a)(ii))	116,731,095	11,673	32,101	43,774
At 31 December 2018	6,969,331,680	696,933	1,762,147	2,459,080

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 39 to the financial statements.

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39. SHARE OPTION SCHEME

On 18 March 2010, the Company adopted a share option scheme (the "Scheme") and, unless otherwise cancelled or amended, the Scheme will remain in force for ten years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group's business; to provide additional incentives to employees, officers and directors, contractors, suppliers, advisors and consultants who have contribution to the Group; and to promote the long term financial success of the Group by aligning the interests of option holders to shareholders of the Company. The directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up options to subscribe for ordinary shares of the Company at HK$1 per grant of options.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the ordinary shares of the Company in issue at any time. The total number of ordinary shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to any one person must not exceed 1% of the total number of ordinary shares of the Company in issue.

An option granted under the Scheme is personal to the grantee and shall not be assignable or transferable.

The period during which an option granted under the Scheme may be exercised will be determined by the board of directors at their discretion, save that no option may be exercised later than 10 years after the grant date. No option may be granted more than 10 years after the date of approval of the Scheme.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Company's ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of an ordinary share of the Company.

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

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

	2018		2017	
	Weighted average exercise price (HK$ per share)	**Number of options '000**	Weighted average exercise price (HK$ per share)	Number of options '000
At 1 January	**0.599**	**906,113**	0.596	962,313
Cancelled during the year	**–**	**–**	0.548	(56,200)
At 31 December	**0.599**	**906,113**	0.599	906,113

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39. SHARE OPTION SCHEME (continued)

Notes:

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

Number of options outstanding			
2018	2017	**Exercise price***	
'000	'000	**(HK$ per share)**	**Exercise period****
172,000	172,000	0.465	28-10-2011 to 27-10-2021
277,413	277,413	0.410	1-6-2012 to 31-5-2022
152,000	152,000	0.574	24-5-2013 to 23-5-2023
185,700	185,700	0.940	31-3-2014 to 30-3-2024
38,000	38,000	0.750	28-8-2014 to 27-8-2024
81,000	81,000	0.720	8-4-2015 to 7-4-2025
906,113	906,113		

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

** The share options have no vesting period.

(b) At 31 December 2018, the Company had 906,113,000 (2017: 906,113,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 906,113,000 (2017: 906,113,000) additional ordinary shares of the Company and additional share capital of HK$90,611,000 (2017: HK$90,611,000) and share premium of HK$451,734,000 (2017: HK$451,734,000) (before issue expenses and without taking into account any transfer of share option reserve to the share premium account).

40. RESERVES

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

(b) The share option reserve of the Group comprises the fair value of share options granted which are yet to exercise, as further explained in the accounting policy for the "Share-based payments" in note 2.5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits/accumulated losses should the related options expire or be forfeited.

(c) The PRC statutory reserves are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates established in Mainland China. None of the Group's PRC statutory reserves as at 31 December 2018 were distributable in the form of cash dividends.

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41. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Zhong Jian Jin Bian and China Logistics were considered subsidiaries that have material non-controlling interests during the years ended 31 December 2018 and 2017, and details of which are set out below:

	Zhong Jian Jin Bian		China Logistics	
	2018	2017	**2018**	2017
Percentage of equity interest held by non-controlling equity holders of subsidiaries	**40%**	40%	**35%**	35%

	Zhong Jian Jin Bian		China Logistics	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Consolidated profit/(loss) for the year allocated to non-controlling interests	**5,269**	–	**87,678**	(16,725)
Dividends paid	**–**	–	**–**	–
Accumulated balances of non-controlling interests at the reporting date	**987,221**	981,952	**1,155,790**	1,132,792

The following tables illustrate the summarised consolidated financial information of Zhong Jian Jin Bian and China Logistics:

	Zhong Jian Jin Bian		China Logistics	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Revenue	**78,000**	–	**121,823**	111,668
Total expenses	**(64,828)**	–	**(99,855)**	(64,412)
Profit/(loss) for the year	**13,172**	(3)	**245,785**	(59,970)
Total comprehensive income/(loss) for the year	**13,172**	(3)	**55,803**	180,771
Current assets	**67,629**	639,600	**1,055,160**	727,693
Non-current assets	**4,120,007**	3,631,530	**3,896,970**	3,598,998
Current liabilities	**(677,462)**	(756,128)	**(1,299,700)**	(110,936)
Non-current liabilities	**(1,042,121)**	(1,042,121)	**(288,388)**	(907,518)
Net cash flows from operating activities	**2,353**	–	**55,595**	221,940
Net cash flows from/(used in) investing activities	**–**	–	**168,036**	(219,170)
Net cash flows from/(used in) financing activities	**–**	–	**(65,064)**	(49,495)
Net increase/(decrease) in cash and cash equivalents	**2,353**	–	**158,567**	(46,725)

The amounts disclosed above are before any inter-company eliminations.

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42. ACQUISITION OF SUBSIDIARIES

(a) Business combinations

The provisional fair value of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2017 as at their respective dates of acquisition are set out as follows:

		2017			
	Notes	Tianjin Tong Da You Zhi HK$'000 (note (i))	North Supply HK$'000 (note (ii))	Zhong Jian Jin Bian HK$'000 (note (iii))	Total HK$'000
Net assets acquired:					
Property, plant and equipment	13	–	114	–	114
Investment properties	14	94,652	262,795	–	357,447
Land held for development or sale		–	–	4,175,130	4,175,130
Inventories		–	6,447	–	6,447
Trade receivables		445	1,204	–	1,649
Prepayments, deposits and other receivables		250	82,682	–	82,932
Due from related parties		–	10,171	–	10,171
Income tax recoverables		–	173	–	173
Cash and cash equivalents		642	36,329	–	36,971
Trade payables		–	–	(6,311)	(6,311)
Other payables and accruals		(6,514)	(49,291)	(37)	(55,842)
Due to the non-controlling equity holder		–	–	(447,851)	(447,851)
Due to related parties		–	(63,217)	–	(63,217)
Bank borrowings		–	(65,213)	–	(65,213)
Income tax payables		(135)	–	–	(135)
Deferred revenue		–	(3,882)	–	(3,882)
Deferred tax liabilities	37	(15,070)	(55,257)	(594,270)	(664,597)
Non-controlling interests		–	–	(981,954)	(981,954)
		74,270	163,055	2,144,707	2,382,032
Goodwill on acquisition	16	–	43,495	–	43,495
Gains on bargain purchase of subsidiaries		(7,263)	–	(570,888)	(578,151)
		67,007	206,550	1,573,819	1,847,376

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42. ACQUISITION OF SUBSIDIARIES (continued)

(a) Business combinations (continued)

	2017			
	Tianjin Tong Da You Zhi	**North Supply**	**Zhong Jian Jin Bian**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
	(note (i))	(note (ii))	(note (iii))	
Satisfied by:				
Cash	67,007	158,573	1,573,819	1,799,399
Issue of new ordinary shares of the Company as consideration	–	47,977	–	47,977
	67,007	206,550	1,573,819	1,847,376
Net cash inflows/(outflows):				
Cash acquired	642	36,329	–	36,971
Cash consideration	(67,007)	(158,573)	(1,573,819)	(1,799,399)
Cash consideration payable to the vendors	–	2,508	–	2,508
Deposit paid in prior year for the acquisition	59,805	–	–	59,805
	(6,560)	(119,736)	(1,573,819)	(1,700,115)
Contribution since acquisition:				
Revenue	5,178	1,194	–	6,372
Profit/(loss)	5,417	10,412	(3)	15,826

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42. ACQUISITION OF SUBSIDIARIES (continued)

(a) Business combinations (continued)

Notes:

(i) On 3 January 2017, the Group completed the acquisition of 100% equity interest in Tianjin Tong Da You Zhi, which is engaged in the operation of logistic warehouses in Tianjin, the PRC.

In the opinion of the directors, the gain on bargain purchase of Tianjin Tong Da You Zhi was resulted from the appreciation of the fair value of its underlying properties between the date when the consideration was determined and the date of completion of the acquisition transaction.

(ii) On 31 May 2017, the Group completed the acquisition of 100% equity interest in North Supply, which is engaged in the operation of food storage warehouses in Tongliao City, Inner Mongolia, the PRC.

Non-cash consideration for the acquisition of North Supply includes the issue of 127,937,663 ordinary shares of the Company which had a total fair value of HK$47,977,000, based on the quoted market price of the Company's share of HK$0.375 on the date of acquisition. At 31 December 2017, all the consideration shares have not been issued in accordance with the terms of the agreement and the corresponding consideration payable of HK$47,977,000 was recognised in capital and other reserves of the Group as at 31 December 2017.

In 2018, pursuant to an agreement entered into between, amongst others, the Group, the vendor and the controlling shareholder of the vendor, the parties agreed that a portion of the consideration for the acquisition was settled by way of offsetting against certain current account balances with the controlling shareholder of the vendor of HK$6,545,000 in total instead of issuing consideration shares, and hence, the number of consideration shares for the acquisition was reduced to 116,731,095 ordinary shares of the Company during the year ended 31 December 2018. In this regard, the difference of HK$2,342,000 between the carrying amount of the consideration payable attributable to the reduction in the number of consideration shares and the net current account balance due from the controlling shareholder of the vendor was treated as an adjustment to the consideration paid and payable for the acquisition and was recognised in profit or loss during the year ended 31 December 2018.

(iii) On 30 November 2017, the Group completed the acquisition of 60% equity interest in Zhong Jian Jin Bian, which is engaged in the development and sale of land located in a special economic zone in Cambodia.

In the opinion of the directors, the gain on bargain purchase of Zhong Jian Jin Bian was resulted from the strategic cooperation with the investing partner and the appreciation potential of underlying lands held by Zhong Jian Jin Bian which arises from the "One Belt One Road" development strategy of the PRC government as the special economic zone is the only zone in Cambodia which targets PRC enterprises for investment.

The Group has elected to measure the non-controlling interest in Zhong Jian Jin Bian acquired at the non-controlling interests' proportionate share of the identifiable net assets of the subsidiaries acquired during the year ended 31 December 2017.

(iv) The transaction costs incurred for these acquisitions were immaterial and have been expensed and included in administrative expenses in profit or loss.

(v) The aggregate fair values (and their respective gross contractual amounts) of the trade receivables and deposits and other receivables and amounts due from related parties as at their respective dates of acquisition amounted to HK$1,649,000, HK$82,932,000 and HK$10,171,000, respectively. None of these receivables have been impaired and it is expected that the full contractual amounts can be recovered.

(vi) Had the above combinations taken place at the beginning of the prior year, the revenue of the Group and the profit of the Group for the year ended 31 December 2017 would have been HK$335,665,000 and HK$298,250,000, respectively.

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42. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of assets and liabilities

During the year ended 31 December 2017, the Group acquired the entire equity interests of four entities, namely ZT 9 Development International Limited ("ZT 9 Development"), Fortune Land Industrial Development (Taicang) Pte Ltd ("Fortune Land"), Smooth Time Development Limited ("Smooth Time") and Rich Grow International Development Limited ("Rich Grow"). At the respective dates of the acquisitions, these four entities are either land/property holding companies or had not actively engaged in any businesses and accordingly, in the opinion of the directors, the acquisitions of them did not constitute business combinations but acquisition of assets and liabilities.

For accounting purposes, the cost of acquisition for each of these acquisitions has been allocated to the identifiable assets and liabilities of the acquirees as at the respective dates of acquisitions as follows:

	Notes	ZT 9 Development HK$'000 (note (i))	Fortune Land HK$'000 (note (ii))	Smooth Time HK$'000 (note (iii))	Rich Grow HK$'000 (note (iv))	Total HK$'000
Net assets acquired						
Property, plant and equipment	13	–	2	–	801	803
Investment properties	14	106,850	176,902	–	–	283,752
Prepaid land lease payments	15	–	–	36,011	–	36,011
Prepayments, deposits and other receivables		33	12,707	–	5,534	18,274
Pledged and restricted bank deposits		–	27,056	–	–	27,056
Cash and cash equivalents		11,582	11,333	–	–	22,915
Other payables and accruals		(11,359)	(36,637)	–	(3,432)	(51,428)
Bank borrowings		–	(101,772)	–	–	(101,772)
		107,106	89,591	36,011	2,903	235,611
Satisfied by:						
Cash		107,106	89,591	5,369	–	202,066
Issue of new ordinary shares of the Company as consideration, at fair value	38	–	–	30,642	2,903	33,545
		107,106	89,591	36,011	2,903	235,611
Net cash inflow/(outflows):						
Cash acquired		11,582	38,389	–	–	49,971
Cash consideration		(107,106)	(89,591)	(5,369)	–	(202,066)
		(95,524)	(51,202)	(5,369)	–	(152,095)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

42. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of assets and liabilities (continued)

Notes:

(i) On 18 November 2016, the Group entered into a share transfer agreement with certain independent third parties to acquire 100% equity interest in ZT 9 Development at an aggregate cash consideration of RMB95,007,000 (equivalent to HK$107,106,000). The acquisition was completed on 9 February 2017. At the date of acquisition, ZT 9 Development had not carried out any significant business transaction except for holding one parcel of land with a building under construction in the high-tech district of Changshu, Jiangsu Province, the PRC.

(ii) On 30 June 2017, the Group acquired the entire equity interest in Fortune Land at an aggregate cash consideration of HK$89,591,000. At the date of the acquisition, Fortune Land and its subsidiaries had not carried out any significant business transaction except for holding five warehouses in the high-tech industrial zone of Taicang, Jiangsu Province, the PRC.

(iii) On 31 May 2017, the Group acquired the entire equity interest in Smooth Time at an aggregate consideration of HK$36,011,000. At the date of acquisition, Smooth Time and its subsidiaries had not carried out any significant business transaction except for holding certain parcels of land in Wuzhishan, Hainan Province, the PRC.

(iv) On 31 May 2017, the Group acquired the entire equity interest in Rich Grow at an aggregate consideration of HK$2,903,000. At the date of the acquisition, Rich Grow and its subsidiaries had not carried out any significant business transaction except for holding a parcel of land in Baoting, Hainan Province, the PRC.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Apart from the issuance of the consideration shares in 2018 and 2017 for the acquisition of subsidiaries in 2017, as disclosed in notes 42(a)(ii) and 42(b) to the financial statements, the Group has no other major non-cash transactions of investing and financing activities during the years ended 31 December 2018 and 2017.

(b) Changes in liabilities arising from financing activities

	Bank borrowings HK$'000	Convertible bonds HK$'000	Guaranteed bonds HK$'000	Due to other related parties HK$'000
At 1 January 2017	2,296,486	429,803	2,281,437	63,825
Changes from financing cash flows	525,598	(493,936)	2,281,334	46,334
Increase arising from acquisition of subsidiaries	166,984	–	–	511,067
Interest expense	–	49,966	38,220	–
Exchange realignment	68,338	14,167	49,395	(9,389)
At 31 December 2017 and 1 January 2018	3,057,406	–	4,650,386	611,837
Changes from financing cash flows	543,471	–	(451,338)	593
Changes from operating cash flows	–	–	–	7,418
Interest expense	–	–	46,988	–
Exchange realignment	(90,879)	–	–	–
At 31 December 2018	3,509,998	–	4,246,036	619,848

NOTES TO FINANCIAL STATEMENTS

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44. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its completed investment properties (note 14) under operating lease arrangements, with the leases negotiated for terms ranging from one to twenty years (2017: one to ten years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2018	2017
	HK$'000	HK$'000
Within one year	**241,521**	222,117
In the second to fifth years, inclusive	**332,758**	403,801
After five years	**198,196**	158,333
	772,475	784,251

(b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years (2017: one to two years).

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

	2018	2017
	HK$'000	HK$'000
Within one year	**5,222**	1,487
In the second to fifth years, inclusive	**3,686**	198
	8,908	1,685

NOTES TO FINANCIAL STATEMENTS

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45. CAPITAL COMMITMENTS

At 31 December 2018, the Group had the following capital commitments:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Capital injection into an associate	**119,501**	252,137
Capital contribution to a joint venture	**3,900**	–
Construction of industrial plants	**192,363**	8,397
Purchase of land	**229,164**	–
Total capital commitments`	**544,928**	260,534

In addition, the Group's share of joint ventures' own capital commitments, which are contracted but not provided for and not included in the above disclosure, amounted to HK$700,847,000 (2017: HK$858,890,000) as at 31 December 2018.

46. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2018 HK$'000	2017 HK$'000
Interest income from a joint venture	(i)	**16,205**	18,355
Interest income from a fellow subsidiary	(ii)	**1,353**	–
Rental income from a non-controlling equity holder of a subsidiary and its subsidiaries#*	(iii)	**–**	1,649
Rental expense paid to a fellow subsidiary	(iv)	**897**	1,833
Management fee paid to a non-controlling equity holder of a subsidiary#*	(v)	**6,036**	4,997
Key management personnel service fees paid to a hotel manager	(vi)	**3,072**	8,587
Acquisition of a joint venture from a joint venture	17(a)	**126,380**	–

These transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

* Rental income of HK$2,033,000 and management fee expenses of HK$870,000 were generated from a former non-controlling equity holder of a subsidiary and its subsidiaries. These transactions are not regarded as related party transactions and therefore not disclosed in the above table. These transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

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46. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

Notes:

(i) The interest income was charged on bank entrusted loans advanced to the joint venture at mutually-agreed rates.

(ii) Pursuant to a deposit services master agreement (the "Deposit Agreement") entered into between the Company and Beijing Enterprises Group Finance Co., Ltd. ("BG Finance") on 29 June 2015, the Group may, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time. BG Finance is a non-wholly-owned subsidiary of Beijing Enterprises Group and acts as a platform for members of Beijing Enterprises Group for provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

The term of the Deposit Agreement shall commence on the date of the Deposit Agreement and continue up to and including 31 December 2019. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the term of the Deposit Agreement will not exceed HK$650,000,000. Further details of the Deposit Agreement are set out in the Company's announcement dated 28 April 2017.

The deposits placed by the Group with BG Finance as at 31 December 2018 amounted to HK$236,970,000 (2017: HK$130,678,000).

(iii) The rental income was determined by reference to the prevailing market rentals at the time when the rental agreements were entered into.

(iv) The rental expense related to the lease of an office located in Beijing from a fellow subsidiary. The rental expense was determined by reference to the prevailing market rentals at the time when the rental agreement was entered into.

(v) The management fee was determined by reference to the property management market rate for properties of comparable size, location and facilities at the time when the property management agreements were entered into.

(vi) The management fee was paid for the management and administrative services provided by a hotel management company in respect of the Group's hotel operation. The management fee was charged pursuant to the terms in the agreements signed between a wholly-owned subsidiary of the Group and the hotel management company on 14 June 1988, 31 May 1991, 21 July 2003 and 18 August 2005.

Save as disclosed above and the balances detailed in notes 17, 18 and 26 to the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

46. RELATED PARTY DISCLOSURES (continued)

(b) Transactions with other state-owned entities in Mainland China

The Company is a state-owned enterprise of the PRC government and is subject to the control of the Beijing SASAC and ultimate control of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively the "Other SOEs"). During the year, the Group had transactions with the Other SOEs including, but not limited to, bank borrowings, deposits and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's businesses, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are individually or collectively significant related party transactions that require separate disclosure in the financial statements.

(c) Compensation of key management personnel of the Group

	2018 HK$'000	2017 HK$'000
Short term employee benefits	**18,626**	15,635
Pension scheme contributions	**1,541**	991
Total compensation paid to key management personnel	**20,167**	16,626

Further details of directors' emoluments are included in note 9 to the financial statements.

47. FINANCIAL INSTRUMENTS BY CATEGORY

Except for an equity investment and a put option being classified as a financial asset at fair value through other comprehensive income and a financial liability at fair value through profit or loss, respectively, as further detailed in notes 19 and 34 to the financial statements, all financial assets and financial liabilities of the Group as at 31 December 2018 and 2017 were financial assets and financial liabilities stated at amortised cost, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

48. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the financial assets and financial liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Group's financial controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the financial controller analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the senior management.

The following table sets out a comparison, by carrying amount and fair value, of the Group's financial instruments that are carried in the financial statements at other than fair value:

	Carrying amount		**Fair value**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current financial assets:				
Deposits and other receivables	**–**	61	**–**	61
Non-current financial liabilities:				
Investment deposits received	**–**	114,972	**–**	110,152
Due to other related parties	**451,948**	448,451	**421,216**	429,654
Bank borrowings	**2,394,701**	2,889,883	**2,331,533**	2,987,040
Guaranteed bonds	**4,246,036**	2,330,206	**4,209,556**	2,296,718
	7,092,685	5,783,512	**6,962,305**	5,823,564

Note: The fair values of the financial assets and financial liabilities which are due to be received or settled within one year approximate to their carrying amounts largely due to the short term maturities of these instruments, therefore, no disclosure of the fair values of these financial instruments is made.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank borrowings, guaranteed bonds and cash and bank balances. The main purpose of these financial instruments is to finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, deposits received and other payables.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are (a) interest rate risk, (b) foreign currency risk, (c) credit risk and (d) liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group's exposure to market risk arising from changes in interest rates in respect of cash and bank balances is considered relatively minimal.

At 31 December 2018, the Group's interest-bearing borrowings amounting to HK$3,384,807,000 (2017: HK$2,624,980,000) bore interest at floating rates.

At 31 December 2018, it was estimated that a general decrease (increase) of 100 basis points in interest rate of average balances of bank loans and bank balances during the year, with all other variables held constant, would increase (decrease) the Group's profit before tax by approximately HK$45,116,000 (2017: HK$46,427,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's businesses are mainly carried out by subsidiaries located in Mainland China and the majority of their transactions are conducted in RMB. The Group therefore has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

Owing to the fact that the presentation currency of these financial statements is Hong Kong dollar but the functional currency of the PRC subsidiaries, joint ventures and associates is RMB, the net assets of the Group's investments in these entities are exposed to foreign currency translation risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk

The Group only leases its completed investment properties to recognised and creditworthy third parties. It is the Group's policy that security deposits equivalent to three month rentals are received in advance from the tenant upon each rental agreement is signed.

Since the Group only leases its completed investment properties to recognised and creditworthy third parties, and the trade receivables are fully collateralised by the security deposits paid by the relevant tenant, there is no requirement for further collateral. Over 90% of the Group's customers and operations are located in Mainland China. Concentrations of credit risk are managed by diversity in customer base and geographical locations of warehouse portfolio.

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

	Maximum exposure to credit risk				
	12- month ECLs	**Lifetime ECLs**			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	–	–	–	10,633	10,633
Financial assets included in prepayments, deposits and other receivables	22,412	–	–	–	22,412
Due from a joint venture	559,142	–	–	–	559,142
Due from associates	29,126	–	–	–	29,126
Pledged and restricted bank deposits, not yet past due	718,958	–	–	–	718,958
Cash and cash equivalents, not yet past due	1,101,402	–	–	–	1,101,402
	2,431,040	–	–	10,633	2,441,673

For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 24 to the financial statements.

The credit quality of the financial assets included in prepayments, deposits and other receivables are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

The credit risk of the Group's other financial assets, which comprise amounts due from a joint venture and associates, deposits and other receivables and cash and bank balances, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

NOTES TO FINANCIAL STATEMENTS

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49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of bank and other borrowings and convertible bonds. In addition, banking facilities have been put in place for contingency purposes.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of short term loans to cover expected cash demands, subject to approval by management of the Group. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

	No fixed term or on demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2018						
Trade payables	**–**	**9,553**	**–**	**–**	**–**	**9,553**
Other payables and accruals	**960,396**	**112,681**	**–**	**–**	**–**	**1,073,077**
Due to other related parties	**167,900**	**–**	**451,948**	**–**	**–**	**619,848**
Due to a joint venture	**127,239**	**–**	**–**	**–**	**–**	**127,239**
Bank borrowings	**197,121**	**1,050,409**	**1,728,966**	**175,092**	**701,673**	**3,853,261**
Guaranteed bonds	**–**	**277,875**	**4,516,688**	**–**	**–**	**4,794,563**
	1,452,656	**1,450,518**	**6,697,602**	**175,092**	**701,673**	**10,477,541**
At 31 December 2017						
Trade payables	–	9,275	–	–	–	9,275
Other payables and accruals	543,604	12,519	–	–	–	556,123
Due to related companies	163,386	–	448,451	–	–	611,837
Bank borrowings	–	460,223	1,259,400	1,452,296	508,650	3,680,569
Guaranteed bonds	–	2,570,956	102,540	2,360,870	–	5,034,366
	706,990	3,052,973	1,810,391	3,813,166	508,650	9,892,170

NOTES TO FINANCIAL STATEMENTS

31 December 2018

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

Depending on the market conditions and funding arrangements, if at any time repurchase of the Company's shares will lead to an enhancement of the net asset value per share and/or earnings per share of the Group, the directors will authorise such transactions.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total assets. Total borrowings are calculated as total bank borrowings and guaranteed bonds. The gearing ratio as at the end of the reporting period was as follows:

	2018 **HK$'000**	2017 HK$'000
Total borrowings	**7,756,034**	7,707,792
Total assets	**18,321,421**	17,860,702
Gearing ratio	**42%**	43%

50. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 29(a) to the financial statements, the Group has the following significant events after the reporting period:

(a) On 18 January 2019, the Company, as a guarantor, entered into a guarantee agreement with a bank, pursuant to which the Company has agreed to guarantee in favour of the bank 75% of the obligations in respect of a loan of RMB136,000,000 provided by the bank to a wholly-owned subsidiary of a 75%-owned subsidiary of the Group (the "Entity") under a loan facility agreement dated 16 August 2018. The provision of the guarantee is to enable the Entity to obtain banking facilities to finance its construction project located in Jiaxing Economic and Technological Development Zone in Jiaxing, the PRC.

(b) On 1 February 2019, two wholly-owned subsidiaries of the Company entered into two separate agreements with two independent third parties to acquire equity interest of 15% and 25% of Beijing BHL Logistics Limited, which is principally engaged in development and operation of storage facilities and provision of logistics information consulting services, respectively, at a total cash consideration of RMB70,861,000 (equivalent to approximately HK$82,919,000). As at the date of approval of these financial statements, the transactions have not been completed and are subject to fulfilment of certain conditions precedent and further negotiation between the parties.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018	2017
	HK$'000	HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**25**	54
Interests in subsidiaries	**6,284,423**	6,357,598
Interests in joint ventures	**146,822**	498,557
Equity investment at fair value through other comprehensive income	**22,787**	52,964
Total non-current assets	**6,454,057**	6,909,173
CURRENT ASSETS		
Prepayments, deposits and other receivables	**4,272**	26,130
Due from subsidiaries	**2,387,764**	1,121,742
Due from a joint venture	**126,388**	–
Cash and bank balances	**37,342**	205,097
Total current assets	**2,555,766**	1,352,969
CURRENT LIABILITIES		
Other payables and accruals	**43,634**	31,146
Due to the immediate holding company	**747**	434
Due to subsidiaries	**171,321**	3,987,913
Bank borrowings	**196,500**	–
Total current liabilities	**412,202**	4,019,493
NET CURRENT ASSETS/(LIABILITIES)	**2,143,564**	(2,666,524)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	2018	2017
	HK$'000	HK$'000
NON-CURRENT LIABILITIES		
Bank borrowings	**1,537,273**	1,342,273
Due to subsidiaries	**4,366,312**	–
Total non-current liabilities	**5,903,585**	1,342,273
Net assets	**2,694,036**	2,900,376
EQUITY		
Issued capital	**696,933**	685,260
Reserves	**1,997,103**	2,215,116
Total equity	**2,694,036**	2,900,376

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

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

	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Capital and other reserves HK$'000	Convertible bond equity reserve HK$'000	Financial asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	1,705,102	423,880	194,415	–	247,321	(49,618)	(110,294)	(91,695)	2,319,111
Loss for the year	–	–	–	–	–	–	–	(157,143)	(157,143)
Other comprehensive income/(loss) for the year									
– Exchange differences on translation of financial statements into presentation currency	–	–	–	–	–	–	95,835	–	95,835
– Changes in fair value of equity investment at fair value through other comprehensive income, net of income tax of nil	–	–	–	–	–	(32,119)	–	–	(32,119)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(32,119)	95,835	(157,143)	(93,427)
Issue of shares as consideration for the acquisition of subsidiaries	**24,944**	–	–	–	–	–	–	–	**24,944**
Share consideration payable for the acquisition of a subsidiary	–	–	–	**47,977**	–	–	–	–	**47,977**
Early redemption of convertible bonds	–	–	–	–	**(247,321)**	–	–	**163,832**	**(83,489)**
Transfer of share option reserve upon forfeiture of share options	–		**(13,699)**	–	–	–	–	**13,699**	–
At 31 December 2017 and 1 January 2018	**1,730,046**	**423,880**	**180,716**	**47,977**	–	**(81,737)**	**(14,459)**	**(71,307)**	**2,215,116**
Loss for the year	–	–	–	–	–	–	–	**(171,961)**	**(171,961)**
Other comprehensive loss for the year									
– Change in fair value of equity investment at fair value through other comprehensive income, net of income tax of nil	–	–	–	–	–	**(30,176)**	–	–	**(30,176)**
Total comprehensive loss for the year	–	–	–	–	–	**(30,176)**	–	**(171,961)**	**(202,137)**
Reduction in consideration shares to be issued for the acquisition of a subsidiary in the prior year as at result of a change in settlement terms of consideration	–	–	–	**(4,203)**	–	–	–	–	**(4,203)**
Issue of consideration shares for the acquisition of a subsidiary in the prior year	**32,101**	–	–	**(43,774)**	–	–	–	–	**(11,673)**
At 31 December 2018	**1,762,147**	**423,880**	**180,716**	–	–	**(111,913)**	**(14,459)**	**(243,268)**	**1,997,103**

52. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation and disclosure.

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2019.

PARTICULARS OF PROPERTIES

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
Completed investment properties			
Level 1 on No. 89 Shenfei Road, Levels 1 and 2 on Nos. 59, 119, 159, 199, 239 Shenfei Road, and Levels 1 and 2 on Nos. 60, 90, 120, 160, 200 and 240 Shenya Road, Shanghai Wai Gao Qiao Logistics Centre, Shanghai City, the PRC	Logistics Warehouse	Medium term lease	65%
Site 19, Third Avenue, Tianjin Airport Economic Area (International Logistics Zone), Tianjin City, the PRC	Logistics warehouse	Medium term lease	75.5%
Metro Mall (excluding Units 63 to 65, Basement I) No. 63 Xihu Road, Yuexiu District, Guangzhou City, Guangdong Province, the PRC*	Shopping mall	Medium term lease	98.9%
A warehouse and surplus land located in Peng Jia Tai Community, Xiazhuang Street, Chengyang District, Qingdao City, Shandong Province, the PRC	Cold chain warehouse	Medium term lease	80%
Five warehouses, an ancillary building and various developing portions located at Nos. 555-563 Ji'an Road, Tong'an District, Xiamen City, Fujian Province, the PRC	Logistics warehouse	Medium term lease	80%
Land and Buildings situated at Nos. 3 & 5 Bencao Avenue South Section, Meishan Economic Development New Zone, Shangyi Town, Meishan City, Sichuan Province, the PRC	Logistics warehouse	Medium term lease	60%

PARTICULARS OF PROPERTIES

INVESTMENT PROPERTIES (continued)

Location	Use	Tenure	Attributable interest of the Group
A warehouse located in Jin Ma Xian Dai Logistics Center, Jinma Avenue, Chengmai District, Haikou City, Hainan Province, the PRC	Logistics warehouse	Medium term lease	80%
Site F, Tianjin Airport International Logistics Zone, Tianjin City, the PRC	Logistics warehouse	Medium term lease	75.5%
Five warehouses and ancillary facilities situated at Chengxiang Zhen High-tech Industry Park, Taicang City, Zhejiang Province, the PRC	Logistics warehouse	Medium term lease	54.36%
No. 168 Jing Bin Avenue, Tianjin Port Free Trade Zone, Tianjin City, the PRC	Logistics warehouse	Medium term lease	65%
Section No.2012-3, Jiang Jia Shan, Kecheng District, Quzhou City, Zhejiang Province, the PRC	Logistics center	Medium term lease	100%
Section No.2014-1, Jiang Jia Shan Kecheng District, Quzhou City Zhejiang Province, the PRC	Logistics center	Medium term lease	100%
Warehouses and various building structures located in Ke'erqin Er Wei and Qi Jiefang, Ke'erqin District, Tongliao City, the PRC	Logistics warehouse	Medium term lease	100%

PARTICULARS OF PROPERTIES

INVESTMENT PROPERTIES (continued)

Location	Use	Tenure	Attributable interest of the Group
Investment properties under construction			
Land Lot No. 2016-G-9, East of Guoxiang Avenue and North of Songrui Road, Wuzhong Economic Development Area, Suzhou City, the PRC	Logistics warehouse	Medium term lease	54.36%
Land Lot No. 2016-28, East of Wangguo Road and North of Guangqiong Road, Jiaxing City, Zhejiang Province, the PRC	Logistics warehouse	Medium term lease	54.36%
Developing Project at Lot No. 104010GB00029, East of Wuyishan Road and North of Dongnan Avenue, Gaoxin High-tech Industries Development Area, Changshu City, Jiangsu Province, the PRC	Logistics warehouse	Medium term lease	54.36%
Land Lot No. 320517106901, North of Hengqi Road and West of Zhongliu Road, Chengxiang Zhen, Taicang City, Jiangsu Province, the PRC	Logistics warehouse	Medium term lease	54.36%
Developing warehouses in South of China Railway 19th Bureau, East of Tongliao Hexi Inner Mongolia Autonomous Region Food Reserve, Ke'erqin District, Tongliao City, the PRC	Logistics warehouse	Medium term lease	100%
A warehouse and various building structures located in Qi Jiefang, Ke'erqin District, Tongliao City, the PRC	Logistics warehouse	Medium term lease	100%

* The 6 Floor of Metro Mall was classified as properties held for sale as at 31 December 2017 (note 19).

PARTICULARS OF PROPERTIES

BUILDINGS AND WAREHOUSES

Location	Use	Tenure	Attributable interest of the Group
A hotel building located in Holiday inn downtown Beijing, 98 Beilishi Road, Financial Street, Xichengqu, the PRC	Hotel	Short-term lease	100%
Marine Economic Area, Binhai New Area, Hangu District, Tianjin City, the PRC	Cold chain warehouse	Medium term lease	60%

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the published annual report and audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**480,705**	335,025	317,966	296,572	202,983
Profit before tax	**316,529**	298,687	171,881	341,033	298,209
Income tax	**(216,329)**	(3,103)	(47,783)	(67,118)	(107,199)
Profit for the year	**100,200**	295,584	124,098	273,915	191,010
Attributable to:					
Shareholders of the Company	**(23,677)**	300,916	115,375	276,786	166,876
Non-controlling interests	**123,877**	(5,332)	8,723	(2,871)	24,134
	100,200	295,584	124,098	273,915	191,010

ASSETS, LIABILITIES AND TOTAL EQUITY

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**18,321,421**	17,860,702	11,718,464	11,466,544	9,555,333
Total liabilities	**(11,751,191)**	(11,068,063)	(6,713,621)	(7,005,860)	(5,243,365)
NET ASSETS	**6,570,230**	6,792,639	5,004,843	4,460,684	4,311,968
Attributable to:					
Shareholders of the Company	**3,930,578**	4,419,323	3,660,590	4,220,420	4,161,837
Non-controlling interests	**2,639,652**	2,373,316	1,344,253	240,264	150,131
TOTAL EQUITY	**6,570,230**	6,792,639	5,004,843	4,460,684	4,311,968