



百仕達控股有限公司\*

SINOLINK WORLDWIDE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 1168

ANNUAL REPORT

2018

\* For identification purpose only

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### *Executive Directors*

Xiang Ya Bo  
(Chairman and Chief Executive Officer)  
Chen Wei

### *Non-executive Directors*

Ou Jin Yi Hugo  
Ou Yaping  
Tang Yui Man Francis

### *Independent Non-executive Directors*

Tian Jin  
Xiang Bing  
Xin Luo Lin

## AUTHORISED REPRESENTATIVES

Ou Jin Yi Hugo  
Xiang Ya Bo

## COMPANY SECRETARY

Lo Tai On

## AUDIT COMMITTEE

Xin Luo Lin (Chairman)  
Tian Jin  
Xiang Bing

## NOMINATION COMMITTEE

Tian Jin (Chairman)  
Xiang Bing  
Xiang Ya Bo  
Xin Luo Lin

## REMUNERATION COMMITTEE

Xin Luo Lin (Chairman)  
Xiang Bing  
Xiang Ya Bo

## AUDITOR

Deloitte Touche Tohmatsu  
Certified Public Accountants  
35th Floor, One Pacific Place  
88 Queensway  
Hong Kong

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

28th Floor, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong  
Telephone : (852) 2851 8811  
Facsimile : (852) 2851 0970  
Stock Code : 1168  
Website : <http://www.sinolinkhk.com>

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor  
Services Limited  
46th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## HONG KONG BRANCH SHARE TRANSFER OFFICE

Computershare Hong Kong Investor  
Services Limited  
Shops 1712 – 1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## LEGAL ADVISORS

(As to Hong Kong Law)  
Cleary Gottlieb Steen & Hamilton (Hong Kong)  
Deacons  
Guantao & Chow Solicitors & Notaries  
JunHe Law Offices  
Norton Rose Fulbright Hong Kong  
Tsang, Chan & Wong

(As to Bermuda Law)  
Conyers Dill & Pearman

## PRINCIPAL BANKERS

Bank of China  
Bank of China (Hong Kong) Limited  
Hang Seng Bank Limited  
Industrial and Commercial Bank of China  
Ping An Bank

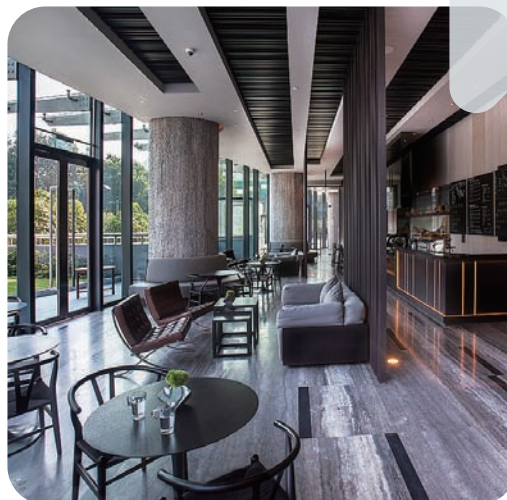


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# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the “Board”) of Sinolink Worldwide Holdings Limited (“Sinolink” or the “Company”), I present the results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2018.



▀ Restaurant at O Hotel, Shenzhen

## BUSINESS REVIEW

During the year ended 31 December 2018, the Group’s core businesses remained focused on financial service sector, asset financing management, property development, commercial property investment and operating property management, financial products and securities investment. The Group recorded a turnover of HK\$528.4 million for the year and loss attributable to owners of the Company of HK\$267.7 million. Basic loss per share amounted to HK7.56 cents. The Board does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: nil).

China’s gross domestic product (“GDP”) amounted to RMB90 trillion in 2018, up 6.6% year-on-year, which was in line with market expectations. Against the backdrop of a lackluster global economic outlook that led to the downward revision of global economic growth forecast by the IMF, China’s major economic data has been declining since the beginning of 2018, and the overall economic growth continued to slow down. In 2018, in light of the great pressure on China’s economic growth, adjustments have been made to the domestic macro-economic control policies and financial regulatory policies, with the aim to enhance “risk prevention” while seeking “stable growth”. After the two meetings of the Political Bureau of the Central Committee of CPC and the Central Economic Work Conference which put forward again the work objectives of stabilizing employment, finance, foreign trade, foreign investment, domestic investment and expectations, the implementation of a series of “steady growth” policies has become increasingly important. At present, while China’s economic structure is still undergoing continuous adjustment and optimization and the market remains at the bottom, we are expected to witness increasing policy efforts to promote steady growth amidst economic downturn. It is expected that more macro-economic control policies and financial reform policies will be introduced in the future to maintain “stable growth” momentum.

## CHAIRMAN'S STATEMENT

Associate Mission Building, Rockbund, Shanghai



Yuanmingyuan Road, Rockbund, Shanghai

Against this backdrop and macro environment, Sinolink has been exploring new growth approaches to capture potential opportunities arising from the new form of economic development, while seeking opportunities and launching initiatives for investing and participating in financial technology and new economy sectors and striving for greater room to expand its operations in pursuit of sustainable development and stable return.

### PROSPECTS

Looking forward to 2019, global economic growth is at the risk of further slowdown, and trade conflict remains the main risk to the world for some time to come.

For the PRC economy, in the face of a turbulent external environment, stabilizing domestic demand has become the primary goal. With the downward pressure on the economy and in this context, institutional reform and the resulting improvement of total factor productivity are fundamental to the mid- and long-term economic growth, again highlighting the importance of “reform”. After the Central Economic Work Conference put forward the strategy of “invigorating micro-entities”, we expect a new round of reforms to boost the Chinese economy from the bottom up, and believe that a variety of business opportunities will emerge as the Chinese government continues to press ahead with the economic reform by improving the market regime, deepening system reform and pursuing innovation.



# CHAIRMAN'S STATEMENT

Despite of the cautious view on the short- and medium-term economic trends in China, we are still confident about the Group's business prospects in the long run. We are keeping a close watch on potential short-term fluctuations in the economy while maintaining a long-term vision in business planning. With an aim to create more value for the Company, we will take on market challenges in a prudent manner to explore potential business opportunities after careful analysis, sparing no effort in shaping the Company into a sustainable business with greater room and momentum for development.

## **APPRECIATION**

On behalf of the Board, I would like to thank all our staff for their devoted work and give my sincere gratitude to all our shareholders for their continual support over the years.

**Xiang Ya Bo**

*Chairman*

Hong Kong, 21 March 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

Looking back at 2018, the World Bank and the International Monetary Fund revised down their respective economic forecasts in light of decline in global trade and investment growth. The Federal Reserve (the “Fed”) has called for more “patience” on interest rates hike due to slowdown in the U.S. economic growth and a turbulent financial market, and a number of Fed officials have adopted a more prudent attitude towards the prospect of the US economy and the pace of interest rate hikes. Besides, the growth momentum of the five major economies in the Eurozone also slowed down in 2018 with fragile economic confidence, resulting in the climate index falling to its lowest level in two years. Overall, there were more negative external factors and challenges at play in the Chinese economy.

In 2018, China’s GDP amounted to RMB90 trillion, representing an increase of 6.6% as compared to last year. By quarters, the year-on-year growth rates of GDP in each of the four quarters were 6.8%, 6.7%, 6.5% and 6.4% respectively, showing a downward trend in growth rate throughout the year and indicating great pressure on the domestic economy due to slowdown in global economic growth and weakened domestic and overseas demands.

The continuous slowdown in China’s economic growth is attributable to both structural and cyclical factors. Since 2012, the potential economic growth in China has been on a decline track due to slowdown in technology development, weakening of incentive mechanisms and decline in resource allocation efficiency as well as increasing costs of labor force, environment, land and resources. Meanwhile, the market demand was weakened due to the diminishing marginal return on corporate capital as stimulated by previous economic growth and the cyclical factors such as the downward financial cycle. The PRC economy will remain under downward pressure in the short and medium term. As a country in transition, there is still substantial room for China’s institutional reform. In view of this, continuous efforts shall be made to implement supply-side reform while taking measures to boost market demands, with an aim to enhance potential economic growth.

In 2018, the Company actively considered enhancing its business model and creating value for the Group in response to the Chinese government’s and the Hong Kong SAR government’s proactive approach to promote financial technology development. In 2018, while maintaining to develop real estate business and financing services business, the Group actively collaborated with leading financial technology companies in the market and grasped every opportunity to develop in the financial technology market. For instance, we invested in ZhongAn Online P & C Insurance Co., Ltd. (“ZhongAn Online”) (stock code: 6060) and with whom we established a joint venture, ZhongAn Technologies International Group Limited (“ZhongAn International”).

For the year ended 31 December 2018, the Group’s revenue increased by 33% year-over-year to HK\$528.4 million. Gross profit increased by 45% year-over-year to HK\$273.1 million. The Company recorded loss attributable to the owners of the Company of HK\$267.7 million for the year, as compared to the profit attributable to the owners of the Company of HK\$110.1 million for the year ended 31 December 2017. Basic loss per share amounted to HK7.56 cents, decreasing 343% year-over-year.





# MANAGEMENT DISCUSSION AND ANALYSIS

## PROPERTY RENTAL

For the year ended 31 December 2018, total rental income amounted to HK\$206.9 million, representing an increase of 14% as compared to last year.

The rental income was mainly contributed by our commercial property portfolio, composed of The Vi City, Sinolink Garden Phase One to Four and Sinolink Tower.

### Sinolink Tower

Located in Luohu district, Shenzhen, Sinolink Tower, composed of the hotel and office complex of Sinolink Garden Phase Five, has a total gross floor area (“GFA”) of approximately 50,000 square meters, of which hotel space occupies 30,000 square meters and office space occupies 20,000 square meters.

As at 31 December 2018, the occupancy rate of the office portion of Sinolink Tower was 90%. Tenants are mainly engaged in jewelry, investment and real estate business.

O Hotel, the Group’s first hotel that is dedicated to delivering customized experience, has 188 rooms and suites, a stylish restaurant, a specialty coffee shop, a premium fitness club and other facilities. Our principle is to develop niche projects based on a differentiated operating model, focusing on quality but not quantity.

Confronted by the economic slowdown in the PRC, O Hotel, as a proprietary brand of boutique hotels, may see its average rent and occupancy rate under pressure. We acknowledge that a strong hotel brand takes time to build. Nevertheless, we are confident that holding a good quality asset for the long term will maximize its value. We will wait patiently for the investment return comprising a higher value of the asset and an increase in operating profit generated therein.



# MANAGEMENT DISCUSSION AND ANALYSIS

## PROPERTIES UNDER DEVELOPMENT

As at 31 December 2018, the Group has the following properties under development:

### 1. Rockbund

Located at the Bund in Shanghai, Rockbund is an integrated property project jointly developed by the Group and The Rockefeller Group International, Inc. The project, comprising preserved heritage buildings and some new structures, has a total site area of 18,000 square meters with a GFA of 94,080 square meters. The Group intends to redevelop the historical site and structures into an upscale mixed-use neighborhood with residential, commercial, retail, food and beverages, offices and cultural facilities. The preserved heritage buildings have commenced operation with a portion already leased out. Capital works of the new building structures had been completed with structural works well under way. The entire project is expected to commence operation upon completion of the construction in 2020.

### 2. Ningguo Mansions

Located in Changning District, Shanghai, Ningguo Mansions is a residential project under construction and inspection. The project, with a total site area of 13,599.6 square meters and a plot ratio of 1.0, will be developed into 11 court houses boasting a fusion of Chinese and Western cultures, each with a GFA of 1,000 to 1,500 square meters. David Chipperfield Architects, a British architecture design company, is in charge of the construction, decoration and design of the project. Situated in one of the most accessible, low-density and tranquil luxury neighborhood in Shanghai, Ningguo Mansions is approximately 10-minute and 30-minute ride away from the airport and the downtown respectively.

The project is currently undergoing inspection, with 4 luxuriously decorated buildings and 7 bare shells, and the landscaping work under subsequent improvement and inspection. Due to the unstable market conditions, appropriate operational arrangements will be made based on the actual situation.

## MAJOR ASSOCIATE – ROCKEFELLER GROUP ASIA PACIFIC, INC.

For the year ended 31 December 2018, the Group recorded a turnaround from share of profit of a major associate, Rockefeller Group Asia Pacific, Inc. (“RGAP”), of HK\$92.4 million to share of loss of HK\$158.6 million in respect of the Rockbund project, which was mainly due to the changes in exchange loss of RGAP, the valuation of the investment properties and finance cost.

## LOAN RECEIVABLE FROM ASSOCIATES

The loan receivable is an investment in RGAP by way of a shareholder's loan used for financing the Rockbund project, constituting part of the total investment of the Group in RGAP. As the loan receivable is in fact an investment, the Group has recognized its share of loss of RGAP in excess of the investment cost against the loan receivable. As at 31 December 2017, such amount is measured at amortized cost based on the estimated future cash flows expected to be received by the Group as well as the estimated timing of such amount. Since Hong Kong Financial Reporting Standards ("HKFRS") 9 became effective on 1 January 2018, the loan receivable from RGAP is measured at fair value through profit or loss ("FVTPL"). The directors consider that the investment is a long-term investment, which should be classified into a non-current asset accordingly.

As at 31 December 2017, the directors of the Company reassessed the recoverable amount of such investment after taking into consideration the estimated future cash flows and timing of such cash flows discounted at original effective interest rate of the loan.

Upon the application of HKFRS 9 as at 1 January 2018, loan receivable from associates as well as the amounts due from associates represent an investment in the project of RGAP as detailed in note 2.2(c) of notes to the consolidated financial statements and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding and loan receivable from associates as well as the amounts due from associates are both measured at FVTPL. The directors of the Company assessed the fair value of the loan receivable from associates and amounts due from associates by taking into consideration the estimated future cash flows and timing of such cash flows discounted at market interest rate. During the year, RGAP has delayed the construction plan of its property project. As such, the Group has revised its estimates as to when the amounts due from associates and loan receivable from associates can be recovered.

A fair value loss of HK\$158,475,000 is recognised in profit or loss during the year ended 31 December 2018.

An impairment loss of HK\$122,835,000, which represented an adjustment to the loan receivable from associates to reduce its carrying amount to its estimated recoverable amount, is recognised in profit or loss during the year ended 31 December 2017.

The directors of the Company have reviewed the carrying amount of the loan receivable from associates of HK\$567,146,000 (2017: HK\$1,207,906,000) and amounts due from associates of HK\$125,537,000 (2017: HK\$170,744,000) and considered that these amounts are fully recoverable.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ASSET FINANCING

眾聯融資租賃(上海)有限公司 (Zhong Lian Financial Leasing (Shanghai) Co., Ltd.\*), 眾安國際融資租賃(天津)有限公司 (Zhong An International Financial Leasing Co., Ltd.\*) and 眾安國際商業保理(天津)有限公司 (Zhong An International Commercial Factoring Co., Ltd.\*), the wholly-owned subsidiaries of the Group, are principally engaged in financing business, including asset financing business and providing various customers with financial leasing, business factoring and other loan financing services. These subsidiaries have gradually commenced operation during the year.

For the year ended 31 December 2018, the revenue from financing services business amounted to HK\$129.2 million (for the year ended 31 December 2017: HK\$38.6 million) with effective interest rate ranging from 6.7% to 16.0% per annum (2017: 6.4% to 14.6%). The Group expects that further financing business will be developed gradually in the coming year.

Due to the lack of credit reference systems and the failure to provide standard collaterals by SME borrowers, domestic SMEs face long-term difficulties in obtaining financing from banks. In addition, the tightening of domestic monetary policy has resulted in further credit crunching, which continuously limited the financing channels available for SMEs and increased their financing costs. Compared with business factoring companies, banks tend to carry out business with large-scale companies and adopt a more prudent credit policy, and the approval process also generally takes longer time. This makes it difficult for SMEs to obtain financing in a timely manner for operation or business expansion, and so they will consider other financing channels such as business factoring, thereby creating business opportunities for business factoring companies.

## OTHER BUSINESSES

Other businesses within the Group include property, facility and project management services. For the year ended 31 December 2018, the Group recorded a turnover of HK\$192.3 million from other businesses, representing a year-over-year increase of 8%.

\* for identification only

## SIGNIFICANT INVESTMENTS

In the current year, the Group has applied HKFRS 9 “Financial Instruments”, Amendments to HKFRS 9 “Prepayment Features with Negative Compensation” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses (“ECL”) for financial assets, finance lease receivables and financial guarantee contracts; and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

As at 31 December 2018, total equity instruments at fair value through other comprehensive income amounted to HK\$1,894.9 million (available-for-sale investments as at 31 December 2017: HK\$4,968.2 million), mainly represented ZhongAn Online owned by the Group of approximately HK\$1,790.1 million (31 December 2017: HK\$4,807.7 million), which was measured at fair value at the end of each reporting period.

In estimating the fair value of the investment in ZhongAn Online, the Group has taken into consideration the marketability discount on domestic shares of ZhongAn Online.

As a leading Internet Insuretech company in the world, ZhongAn Online is committed to enabling the development of insurance industry with technology advancement through advanced technologies including big data, cloud computing, artificial intelligence and blockchain. After years of development, ZhongAn Online has established and continuously optimized the cooperation modes with online scenario parties, with an aim to enhance the operation efficiency of scenario platforms and realize in-depth cooperation with quality scenario parties. Moreover, ZhongAn Online’s capabilities in big data for customers acquisitions, scenario customer operation, artificial intelligence and other technologies also provided support for the operation and development of its proprietary platforms. Upholding the ecosystem-oriented Insuretech strategy, ZhongAn Online is expected to make continuous efforts in consolidating and enhancing its ecosystem service capability by applying its technology strength to more ecosystem partners. We believe ZhongAn Online will continue to improve the development of its existing five major ecosystems, including health, consumer finance, auto, lifestyle consumption and travel, and apply leading technologies in its insurance business, so as to consolidate its leading position in the online Insuretech sector.

# MANAGEMENT DISCUSSION AND ANALYSIS

## JOINT VENTURE – ZHONGAN INTERNATIONAL

As stated in the Company's announcement dated 8 December 2017 and 28 March 2018, the Company entered into the Joint Venture Agreement with ZhongAn Information and Technology Services Co., Ltd. ("ZhongAn Technology Services"), a wholly-owned subsidiary of ZhongAn Online, pursuant to which the Company and ZhongAn Technology Services agreed to jointly invest in ZhongAn International to enable the Company to partner with ZhongAn Technology Services to explore international business development, collaboration and investment opportunities in the areas of fintech and insurtech in overseas market. Pursuant to the Joint Venture Agreement, (a) the Company and ZhongAn Technology Services made a capital contribution in cash in the amount of RMB60 million and RMB50 million, respectively, to ZhongAn International in consideration of its ordinary shares; and (b) the Company has conditionally agreed to make an additional capital contribution of RMB620 million in cash to ZhongAn International in consideration of redeemable preference shares. The Company and ZhongAn Technology Services owns 49% and 51% of the voting interests in ZhongAn International, respectively.

The Group subscribed redeemable preference shares of ZhongAn International ("Redeemable Preference Shares") of RMB526,451,000 (equivalent to HK\$600 million) during the year ended 31 December 2018. ZhongAn International have the right to redeem from the Group all or any portion of Redeemable Preference Shares within 5 years from the date of the issuance of Redeemable Preference Shares (whose term shall be renewed automatically every 5 years, subject to any veto by any of the Group or ZhongAn Technology Services) at the principal amount of the Redeemable Preference Shares being redeemed plus simple rate of 5.5% per annum on the amount redeemed calculated from the date of the relevant contribution by the Group on pro-rata basis. The Group did not have any voting rights from Redeemable Preference Shares and did not have any right to receive dividend from ZhongAn International. In the event of liquidation of ZhongAn International, the Group ranks in priority to other classes of shares in ZhongAn International. As the rights and obligations of the ownership over Redeemable Preference Shares is different from the ownership of ordinary shares of ZhongAn International, the Group's investment in Redeemable Preference Shares is accounted for in accordance with HKFRS 9 and measured at FVTPL.

For the year ended 31 December 2018, the Group's share of loss of ZhongAn International was HK\$67.6 million, which was mainly attributable to the initial development costs incurred by ZhongAn International.



## MANAGEMENT DISCUSSION AND ANALYSIS

As an international development platform for ZhongAn Online, the first Internet insurance company in China, ZhongAn International was established in Hong Kong in December 2017 to explore international business development, cooperation and investment opportunities in relation to fintech and insurtech business in overseas markets. ZhongAn International focuses on providing innovative technologies and solutions for the traditional insurance companies and developing integrated insurance and financial solutions for the internet platforms. In the past year, ZhongAn International has basically completed the preparation work for its international business, with a focus to export technologies to the Asian markets at the early stage of development.

On 31 July 2018, ZhongAn International entered into a shareholder agreement with Soft Bank Vision Fund, pursuant to which Soft Bank Vision Fund, as a strategic investor, will participate in a new operating entity established by ZhongAn International to jointly explore development opportunities for overseas business, with an aim to support ZhongAn International in its efforts to further expand the development of its insurtech, fintech and other technology solution businesses in overseas markets.

On 26 September 2018, ZhongAn International entered into a cooperation agreement with Sampo Japan Insurance Inc. (“SOMPO”), pursuant to which ZhongAn International will, based on ZhongAn Online’s experiences and technology strengths gained from the insurtech market in China over the past five years, export insurtech solutions to SOMPO to facilitate upgrading of the core insurance system and digital transformation.

On 16 January 2019, ZhongAn International and Grab Holdings Inc. (“Grab”, a leading O2O platform in Southeast Asia) announced to form a joint venture company to jointly explore the Internet insurance distribution business in Southeast Asia. ZhongAn International will establish a digital insurance sales platform and provide back-office technology support for the joint venture company.

In 2019, ZhongAn International will continue to establish and improve its target-oriented team management system and cultivate key talents. In addition, ZhongAn International will continue to leverage on the advantage of Hong Kong as an international city to establish a stronghold in Hong Kong. While making strenuous efforts to exploit markets in Hong Kong, Japan and Southeast Asia, we will explore business opportunities in other countries and regions across the globe, seek for more ecosystem partners and continue to export insurtech solutions and provide integrated financial services.

We believe, based on its experiences gained from the insurtech market in China, ZhongAn International will develop world-leading cloud-based and open-ended insurance industry core platform products, and create hybrid ecosystems integrating traditional insurance industry and internet platforms, with an aim to become the preferred partner for insurance digitalization and financial service provider in the Asia Pacific region.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

Looking forward to 2019, macro-political instability will hamper economic growth, and close attention should be paid to the PRC economy as its economic fundamentals will still face many challenges.

In terms of individual industry, we consider the financial technology industry is at its early stage of development with enormous potential for future development. Benefitting from the highly diversified financial technology centers across the globe and the build-up of the sub-segments including regulatory technology and insurance technology, the overall financial technology industry will continue to witness progressive growth and development. The global financial technology financing recorded a steep increase of nearly 120% from USD50.8 billion in 2017 to USD111.8 billion in 2018.

Financial technology focuses on the application of technology in the financial field. The integration of technology and finance has facilitated innovation in financial products and service modes, improvement of customer experience, enhancement of service efficiency and reduction of transaction cost. In recent years, financial technology has become an investment hot spot for global investors and entrepreneurs.

In terms of business activities, while striving to balance the growth and profitability of the existing business, the Group will continue to pay attention to the opportunities arising from the rapid development of the financial technology industry in the hope that resource allocation for the relevant fields can bring sustainable growth and long-term shareholders' value to the Group.

## FINANCIAL REVIEW

The Group's total borrowings increased from HK\$777.3 million as at 31 December 2017 to HK\$1,026.8 million as at 31 December 2018. As at 31 December 2018, the Group's gearing ratio, calculated on the basis of total borrowings over shareholders' equity, was 14.8% as compared with 8.1% as at 31 December 2017. The Group remained financially strong with a net cash position.

At 31 December 2018, bank deposits of HK\$776,857,000 (2017: HK\$629,000), structured deposits of HK\$116,438,000 (2017: nil) and investment properties with an aggregate carrying amount of HK\$528,539,000 (2017: HK\$543,062,000) were pledged to banks to secure general banking facilities granted to the Group. The borrowings of the Group are denominated in RMB and HK\$. As the entire operation of the Group is carried out in the PRC, substantial receipts and payments in relation to operation are denominated in RMB. No financial instruments have been used for hedging purposes; however, the Board will continue to evaluate and closely monitor the potential impact of RMB and interest rate fluctuation on the Group.

The Group's cash and bank balances amounted to HK\$2,747.4 million (including pledged bank deposits, structured deposits, short-term bank deposits, long-term bank deposits, and cash and cash equivalents) as at 31 December 2018, mostly denominated in RMB, HK\$ and USD.





# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL COMMITMENTS

As at 31 December 2018, the Group had commitments of HK\$37.2 million in respect of properties under development.

## CONTINGENT LIABILITIES

As at 31 December 2018, guarantees offered to banks as security for the mortgage loans arranged for the Group's property buyers amounted to HK\$12.7 million.

## FINAL DIVIDEND

In order to retain resources for the Group's business development, the Board does not recommend payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed approximately 786 full time employees for its principal activities. The Group recognizes the importance of high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the approved share option scheme.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries for the year ended 31 December 2018.

## CORPORATE GOVERNANCE

During the year, the Company has complied with the code provisions as set out in the Corporate Governance Code in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") save as disclosed below.

Pursuant to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Since 28 June 2017, Mr. XIANG Ya Bo has undertaken both the roles of the Chairman of the Board and the Chief Executive Officer of the Company. Having considered the current business operation and the size of the Group, the Board is of the view that Mr. XIANG Ya Bo acting as both the Chairman of the Board and also as the Chief Executive Officer of the Company is acceptable and in the best interest of the Group. There are adequate balance of power and safeguards in place. The Board will review this situation periodically and would ensure that the present structure would not impair the balance of power of the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the year ended 31 December 2018, all Directors have complied with the required standard set out in the Model Code.

## AUDIT COMMITTEE

The Company has an audit committee (the “Audit Committee”) which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors, namely, Mr. Tian Jin, Dr. Xiang Bing and Mr. Xin Luo Lin. The Audit Committee meets regularly with the Company’s senior management and the Company’s auditor to consider the Company’s financial reporting process, effectiveness of internal controls, audit process and risk management.

The annual results of the Group for the year ended 31 December 2018 had been audited by the Company’s auditor, Deloitte Touche Tohmatsu, and had been reviewed by the Audit Committee.

## ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company (the “AGM”) was scheduled to be held on Wednesday, 29 May 2019. The notice of AGM will be published on the Company’s website at [www.sinolinkhk.com](http://www.sinolinkhk.com) and the designated website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) in due course.

The register of members of the Company will be closed from Friday, 24 May 2019 to Wednesday, 29 May 2019, both days inclusive, during which period no share transfer will be effected. In order to identify the entitlement for attending the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 23 May 2019.

# PROFILES OF DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. Xiang Ya Bo**, aged 62, was appointed as the chairman of the board of directors (the “Chairman”) and a member of remuneration committee and nomination committee of the Company in June 2017. He was an executive director of the Company in 2011 and the chief executive officer in August 2013. Mr. Xiang is the chairman and the general manager of Sinolink Properties Limited, a subsidiary of the Company. He is a brother of Mr. Ou Yaping, a non-executive director and a substantial shareholder of the Company and is an uncle of Mr. Ou Jin Yi Hugo, a non-executive director of the Company. He graduated with an engineering degree. Mr. Xiang has over 33 years of experience in the field of corporate management, investment management and technical administration on computer technologies and e-commerce. He was an executive director and a member of remuneration committee of Enerchina Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), from May 2002 to June 2016. Save as disclosed above, Mr. Xiang has not held any directorship in other listed public companies in the past three years.

**Mr. Chen Wei**, aged 57, was appointed as an executive director of the Company in December 1997. He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology in the People’s Republic of China (the “PRC”). Mr. Chen was previously employed by a number of large organisations and has over 33 years of experience in engineering, business administration, market development and management. Mr. Chen joined the Group in February 1992 and is responsible for the overall business development, management and strategic planning of the Group. He was an executive director, the chairman of the board of directors and a member of remuneration committee of Enerchina Holdings Limited, a company listed on the Stock Exchange, from May 2007 to April 2017. Save as disclosed above, Mr. Chen has not held any directorship in other listed public companies in the past three years.

## NON-EXECUTIVE DIRECTORS

**Mr. Ou Jin Yi Hugo**, aged 26, was appointed as a non-executive director of the Company in January 2016. He was appointed as a non-executive director of ZhongAn Online P & C Insurance Co., Ltd., a company whose shares are listed on the Stock Exchange on 28 September, 2017 (SEHK: 6060), on 3 July 2017 and was re-designated as an executive director on 27 November, 2017. He obtained a Bachelor’s degree in East Asian Studies from Princeton University. He worked as an associate of the investment team at Thrive Capital, a New York-based venture capital firm with investments in Instagram, Twitch, Spotify, and other software companies. He had served as an investment manager and the deputy director of the Corporate Development Department of the Company from 2010 to 2012 and 2012 to 2015, respectively. He has extensive experience in reviewing residential and commercial property development deals in the United States and portfolio managing of public and private equities, including stocks, bonds, startups, and private equity firms. Mr. Hugo Ou is a son of Mr. Ou Yaping who is a non-executive director and substantial shareholder of the Company. Mr. Hugo Ou is also a nephew of Mr. Xiang Ya Bo, the Chairman, chief executive officer and an executive director of the Company. Save as disclosed above, Mr. Hugo Ou has not held any directorship in other listed public companies in the past three years.

## PROFILES OF DIRECTORS

**Mr. Ou Yaping**, aged 57, was appointed as the Chairman and an executive director of the Company in December 1997 and re-designated as a non-executive director and resigned as the Chairman and a member of remuneration committee of the Company in August 2013. Mr. Ou is the founder of the Group and a substantial shareholder of the Company. He is the chairman of ZhongAn Online P & C Insurance Co., Ltd., a company whose shares are listed on the Stock Exchange on 28 September, 2017 (SEHK: 6060). Mr. Ou holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology in the PRC. Mr. Ou is a brother of Mr. Xiang Ya Bo, an executive director, the Chairman and chief executive officer of the Company and the father of Mr. Ou Jin Yi Hugo, a non-executive director of the Company. He is also the director and shareholder of Asia Pacific Promotion Limited (“Asia Pacific”), a substantial shareholder of the Company, whose interest in shares of the Company is disclosed in the section of “Substantial Shareholders and Other Persons”. Save as disclosed above, Mr. Ou has not held any directorship in other listed public companies in the past three years.

**Mr. Tang Yui Man Francis**, aged 56, was appointed as an executive director of the Company in September 2001 and the chief executive officer in 2002 and ceased to act as chief executive officer and appointed as the Chairman and a member of the remuneration committee of the Company in August 2013. Mr. Tang was also appointed as a member of nomination committee of the Company since 27 March 2012. Mr. Tang was re-designated as a non-executive director and ceased to act as the Chairman, a member of remuneration committee and nomination committee on 28 June 2017. He was an executive director of Enerchina Holdings Limited, a company listed on the Stock Exchange for the period from May 2002 to June 2017. He is currently a director of Sinolink Properties Limited, a subsidiary of the Company. Mr. Tang was appointed as the chief financial officer of ZhongAn Online P & C Insurance Co., Ltd., a company listed on the Stock Exchange, on 3 July 2017. Mr. Tang holds a Bachelor’s degree in Computer Studies from the University of Victoria in Canada and a Master of Business Administration degree from The City University of New York in the United States. Mr. Tang has numerous years of experience in management, accounting and finance. Mr. Tang was responsible for corporate planning, strategic development and financial planning and management of the Group. Save as disclosed above, Mr. Tang has not held any directorship in other listed public companies in the past three years.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Tian Jin**, aged 61, was appointed as an independent non-executive director of the Company in May 2005. He is also a member of audit committee and chairman of nomination committee of the Company. Mr. Tian holds a Bachelor of Arts from Hunan University, Master of Arts from Wuhan University and Doctorate in Administration and Management from Auburn University. He is the Principal of Tur Partners LLC effective from 14 November 2011. Before joining Tur Partners LLC, Mr. Tian served as CEO of Morningstar Asia and chairman of Morningstar China and was a lecturer of Hunan University, visiting professor of Auburn University, director of Academic Technology Development of DePaul University, director of Institutional Planning and Research of DePaul University. Mr. Tian has not held any directorship in other listed public companies in the past three years.

## PROFILES OF DIRECTORS

**Dr. Xiang Bing**, aged 57, was appointed as an independent non-executive director of the Company in December 2008. He is also a member of audit committee, remuneration committee and nomination committee of the Company. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. Dr. Xiang is currently the founding dean and a professor of the Cheung Kong Graduate School of Business (長江商學院). He is an independent non-executive director and a member of audit committee and remuneration committee of Dan Form Holdings Company Limited and Longfor Properties Co., Ltd.; all of which are companies listed on the Stock Exchange. Dr. Xiang was also a director of HC International, Inc., a company listed on the Stock Exchange, until 12 September 2016. Dr. Xiang was also an independent non-executive director and a member of audit committee, remuneration committee and nomination committee of Enerchina Holdings Limited, a company listed on the Stock Exchange, from December 2008 to May 2016; an independent non-executive director and a member of audit committee and chairman of the remuneration committee of China Dongxiang (Group) Co., Ltd., a company listed on the Stock Exchange, until 5 July 2017. Save as disclosed above, Dr. Xiang has not held any directorship in other listed public companies in the past three years.

**Mr. Xin Luo Lin**, aged 70, was appointed as an independent non-executive director of the Company in June 2002. He is also the chairman of audit committee and remuneration committee and a member of nomination committee of the Company. Mr. Xin is a postgraduate from the Peking University in PRC. He was a research associate at the Waseda University in Japan, an honorary research associate at the University of British Columbia, Canada and a visiting fellow at the University of Adelaide, Australia from 1984 to 1985. He was appointed as a Justice of the Peace in New South Wales of Australia in 1991. Mr. Xin is a co-author of a book titled “China’s iron and steel industry policy: implications for Australia”. Mr. Xin is also an independent non-executive director, member of audit committee and remuneration committee of Central China Real Estate Limited and an independent non-executive director, member of audit committee, remuneration committee and nomination committee of Beijing Sports and Entertainment Industry Group Limited (formerly ASR Logistics Holdings Limited), all are listed companies on the Stock Exchange. Mr. Xin is a director of Daikokuya Holdings Co., Ltd. (formerly known as Mori Denki Mfg. Co., Ltd.), a public company listed on the Tokyo Stock Exchange. Mr. Xin was a non-executive director of Enerchina Holdings Limited, a company listed on the Stock Exchange, until May 2016, a non-executive director of China Trends Holdings Limited, a company listed on the Stock Exchange, until 6 May 2016, a non-executive director of ZZ Capital International Limited (formerly Asian Capital Holdings Limited), a company listed on the Stock Exchange, until June, 2016. Save as disclosed above, Mr. Xin has not held any directorship in other listed public companies in the past three years.

# REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) present their report and the audited consolidated financial statements for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 42 and 17 respectively to the financial statements.

## BUSINESS REVIEW

A fair review of the business of the Company and a discussion and analysis of the Group’s performance during the year and the material factors underlying its results and financial position as well as the outlook of the Company’s business are provided in the “Chairman’s Statement” and “Management Discussion and Analysis” from pages 2 to 4 and pages 5 to 15 of this annual report. An analysis of the Group’s performance during the year using financial key performance indicators is provided in the Financial Summary on page 174 of this annual report. Description of the principal risks and uncertainties facing the Company can be found throughout this annual report particularly in notes 32 and 33 to the consolidated financial statements and the “Management Discussion and Analysis” from pages 5 to 15 of this annual report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is subject to certain laws, rule and regulations concerning environmental protection in Hong Kong (“HK”) and PRC including those in relation to the discharge of gaseous waste, liquid waste and solid waste, the disposal of hazardous substances and noise pollution during the construction and development of projects.

The Group emphasizes on complying with relevant environmental laws and regulations and requires its own staff and construction contractors to comply with the relevant laws and regulations relating to the operation and quality of construction including environmental, labour, social and safety regulations, as well as its own standards.

The Directors believe that the Group is compliance in all material respects with applicable environmental laws and regulations in HK and PRC.

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

A report containing the prescribed information of environmental, social and governance matters will be published on the Company’s website within 3 months after the publication of this annual report.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group’s business are mainly carried out by the Company’s subsidiaries established in HK, PRC and the British Virgin Islands while the Company itself is incorporated in Bermuda with its shares listed on the Main Board of the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in Bermuda, PRC, the British Virgin Islands and HK.

During the year ended 31 December 2018 and up to the date of this report, the Group has complied in material aspects in the relevant applicable laws and regulations that have a significant impact on the businesses and operations of the Group during the year.



# REPORT OF THE DIRECTORS

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group has always paid great attention to and maintained a good working relationship with its suppliers of construction materials, and has been providing quality professional and customer-oriented services for its regional government, markets and customers. The aforementioned suppliers and customers are good working partners creating value for the Group. The Group also values the knowledge and skills of its employees, and continues to provide favourable career development opportunities for its employees.

The Group has not only been committed to providing safe and premium quality property projects to its tenants but also to improving the urban living environment and quality of life overall. Throughout the life-cycle of the property development projects, the Group persistently places its customers at the center of its products and services.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 53 of the annual report.

No interim dividend (2017: Nil) was paid to the shareholders of the Company during the year.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

## DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 57 of this annual report.

The Company's reserves available for distribution to shareholders of the Company as at 31 December 2018 amounted to HK\$601,042,000 (2017: HK\$674,760,000).

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for each of the last five financial years is set out on page 174 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

## INVESTMENT PROPERTIES

Details of movements during the year in the investment properties of the Group are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements.



# REPORT OF THE DIRECTORS

## DIRECTORS

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

### Executive Directors:

Xiang Ya Bo (*Chairman and Chief Executive Officer*)

Chen Wei

### Non-executive Directors:

Ou Jin Yi Hugo

Ou Yaping

Tang Yui Man Francis

Law Sze Lai (retired after the conclusion of annual general meeting held on 31 May 2018)

### Independent Non-executive Directors:

Tian Jin

Xiang Bing

Xin Luo Lin

In accordance with Bye-law 87(1) of the Bye-laws, Mr. Chen Wei, Mr. Ou Jin Yu, Hugo, Mr. Tang Yui Man, Francis and Mr. Tian Jin will retire by rotation at the forthcoming annual general meeting (the “AGM”). All the above retiring Directors will, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the Independent Non-executive Directors as regards their independence to the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange. The Company considers that each of the Independent Non-executive Directors is independent to the Company.

## DIRECTORS’ INTERESTS OR SHORT POSITIONS IN SHARES AND SHARE OPTIONS

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company were as follows:

# REPORT OF THE DIRECTORS

## Long positions in shares of the Company

| Name of Directors    | Capacity  | Interest in shares |                         |                 | Total interest in shares | Interest in underlying shares pursuant to share options | Aggregate interest | Approximate percentage of the issued shares of the Company as at 31.12.2018 |
|----------------------|---|--------------------|-------------------------|-----------------|--------------------------|---|--------------------|---|
|                      |   | Personal interest  | Corporate interest      | Family interest |                          |   |                    |   |
| Chen Wei             | Beneficial owner                                      | 13,500,000         | -                       | -               | 13,500,000               | 3,000,000   | 16,500,000         | 0.46%   |
| Ou Yaping            | Joint interest and interest of controlled corporation | -                  | 1,590,283,250<br>(Note) | 7,285,410       | 1,597,568,660            | -   | 1,597,568,660      | 45.11%  |
| Tang Yui Man Francis | Beneficial owner                                      | 21,375,000         | -                       | -               | 21,375,000               | 35,000,000  | 56,375,000         | 1.59%   |
| Tian Jin             | Beneficial owner                                      | -                  | -                       | -               | -                        | 2,000,000   | 2,000,000          | 0.05%   |
| Xiang Bing           | Beneficial owner                                      | -                  | -                       | -               | -                        | 2,000,000   | 2,000,000          | 0.05%   |
| Xiang Ya Bo          | Beneficial owner                                      | -                  | -                       | -               | -                        | 35,000,000  | 35,000,000         | 0.98%   |
| Xin Luo Lin          | Beneficial owner                                      | -                  | -                       | -               | -                        | 2,000,000   | 2,000,000          | 0.05%   |

Note: These 1,590,283,250 shares of the Company are held by Asia Pacific Promotion Limited (“Asia Pacific”), a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Ou Yaping. Accordingly, Mr. Ou is deemed to be interested in the shares of the Company held by Asia Pacific under the SFO.

Details of the share options granted by the Directors are set out in the below section headed “Directors’ Rights to Acquire Shares or Debentures of the Company and Associated Corporation”.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company had, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation or any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO.

# REPORT OF THE DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATION

Pursuant to the Company's share option scheme adopted in 2012, the Company has granted to certain Directors of the Company options to subscribe for the shares of the Company, details of which as at 31 December 2018 were as follows:

| Name of Directors       | Date of grant | Exercise period       | Exercise price<br>HK\$ | Number of shares subject to outstanding options as at 1.1.2018 | Number of shares subject to outstanding options as at 31.12.2018 | Percentage of the issued shares of the Company as at 31.12.2018 |
|-------------------------|---------------|-----------------------|------------------------|--|--|---|
| Chen Wei                | 15.05.2015    | 15.11.2015-14.05.2025 | 1.37                   | 1,500,000  | 1,500,000  | 0.04%   |
|                         |               | 15.05.2016-14.05.2025 | 1.37                   | 1,500,000  | 1,500,000  | 0.04%   |
| Tang Yui Man<br>Francis | 15.05.2015    | 15.11.2015-14.05.2025 | 1.37                   | 17,500,000   | 17,500,000   | 0.49%   |
|                         |               | 15.05.2016-14.05.2025 | 1.37                   | 17,500,000   | 17,500,000   | 0.49%   |
| Tian Jin                | 15.05.2015    | 15.11.2015-14.05.2025 | 1.37                   | 1,000,000  | 1,000,000  | 0.02%   |
|                         |               | 15.05.2016-14.05.2025 | 1.37                   | 1,000,000  | 1,000,000  | 0.02%   |
| Xiang Bing              | 15.05.2015    | 15.11.2015-14.05.2025 | 1.37                   | 1,000,000  | 1,000,000  | 0.02%   |
|                         |               | 15.05.2016-14.05.2025 | 1.37                   | 1,000,000  | 1,000,000  | 0.02%   |
| Xiang Ya Bo             | 15.05.2015    | 15.11.2015-14.05.2025 | 1.37                   | 17,500,000   | 17,500,000   | 0.49%   |
|                         |               | 15.05.2016-14.05.2025 | 1.37                   | 17,500,000   | 17,500,000   | 0.49%   |
| Xin Luo Lin             | 15.05.2015    | 15.11.2015-14.05.2025 | 1.37                   | 1,000,000  | 1,000,000  | 0.02%   |
|                         |               | 15.05.2016-14.05.2025 | 1.37                   | 1,000,000  | 1,000,000  | 0.02%   |

### Notes:

1. The vesting period of the share options is from the date of grant until the commencement date of the exercise period.
2. These options represent personal interest held by the Directors as beneficial owners.

Other than the share option scheme of the Company mentioned below, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## SHARE OPTION SCHEME OF THE COMPANY

A share option scheme was adopted by shareholders of the Company on 17 May 2012 (the “Date of Adoption”) (the “2012 Share Option Scheme”), under which the Board may, at its discretion, offer any Eligible Persons (as hereinafter mentioned) options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. The 2012 Share Option Scheme has a life of 10 years from the Date of Adoption.

The 2012 Share Option Scheme is a share incentive scheme and is established to enable the Group to, (i) recognise and acknowledge the contributions that Eligible Persons have (or may have) made or may make to the Group (whether directly or indirectly); (ii) attract and retain and appropriately remunerate the best possible quality of employees and other Eligible Persons; (iii) motivate the Eligible Persons to optimise their performance and efficiency for the benefit of the Group; (iv) enhance its business, employee and other relations; and/or (v) retain maximum flexibility as to the range and nature of rewards and incentives which the Company can offer to Eligible Persons. The Eligible Persons include (a) any full time or part time employees of the Group or any Directors of the Company or any of its subsidiaries; (b) any customer, supplier or provider of services, landlord or tenant, agent, partner, consultant, or adviser of or a contractor to or person doing business with any member of the Group; (c) trustee of any trust the principal beneficiary of which is, or discretionary trust the discretionary objects of which include, any person referred to (a) or (b) above; (d) a company wholly beneficially owned by any person referred to in (a) or (b) above, and (e) such other persons (or classes of persons) as the Board may in its absolute discretion determine.

The share options are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years from the date of grant. The minimum period for which a share option must be held before it can be exercised would be determined by the Board.

The total number of shares of the Company in respect of which options may be granted under the 2012 Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue on the Date of Adoption (“Scheme Mandate Limit”), without prior approval from the Company’s shareholders. The Company may seek approval of its shareholders in general meeting to renew the Scheme Mandate Limit provided that the total number of shares of the Company in respect of which options may be granted under the 2012 Share Option Scheme and any other share option schemes of the Company must not exceeded 10% of the shares of the Company in issue as at the date of the approval to renew the Scheme Mandate Limit. The number of shares of the Company in respect of which options may be granted to any Eligible Person in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. In addition, the number of shares of the Company in respect of which options may be granted to any Eligible Person (who is a substantial shareholder or an Independent Non-executive Director of the Company, or any of their associates (within the meaning as ascribed under the Listing Rules)) in any 12-month period is not permitted to exceed 0.1% of the total number of shares in issue and HK\$5,000,000 in an aggregate value, based on the closing price of the shares of the Company at the date of each grant, without prior approval from the Company’s shareholders.

The exercise price for the share options under the 2012 Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Eligible Persons and shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheet on the date on which an option is granted, (ii) the average closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheets for the 5 business days immediately preceding the date on which an option is granted; and (iii) the nominal value of a share of the Company on the date on which an option is granted.

## REPORT OF THE DIRECTORS

Consideration of HK\$1 is payable by each Eligible Person for acceptance of a grant of option.

As at the date of this report, a total of 354,111,283 shares (representing approximately 10% of the existing issued shares of the Company), as refreshed by shareholders at the annual general meeting held on 19 May 2016, may be granted under the 2012 Share Option Scheme and a total of 114,000,000 shares (representing approximately 3.22% of the existing issued shares of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2012 Share Option Scheme.

Details of specific categories of options are as follows:

| Option type  | Date of grant | Exercise period       | Exercise price<br>HK\$ |
|--------------|---------------|-----------------------|------------------------|
| 2015A Option | 15.05.2015    | 15.11.2015-14.05.2025 | 1.37                   |
|              | 15.05.2015    | 15.05.2016-14.05.2025 | 1.37                   |
| 2015B Option | 15.05.2015    | 15.11.2015-14.05.2025 | 1.37                   |
|              | 15.05.2015    | 15.05.2016-14.05.2025 | 1.37                   |
|              | 15.05.2015    | 15.11.2016-14.05.2025 | 1.37                   |

The following table discloses movements in the Company's share options granted under the 2012 Share Option Scheme during the year:

|                              | Option types | Outstanding<br>at 1.1.2018 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Lapsed<br>during<br>the year | Outstanding<br>at 31.12.2018 |
|------------------------------|--------------|----------------------------|-------------------------------|---------------------------------|------------------------------|------------------------------|
| <i>Category 1: Directors</i> |              |                            |                               |                                 |                              |                              |
| Chen Wei                     | 2015A Option | 3,000,000                  | -                             | -                               | -                            | 3,000,000                    |
| Tang Yui Man Francis         | 2015A Option | 35,000,000                 | -                             | -                               | -                            | 35,000,000                   |
| Tian Jin                     | 2015A Option | 2,000,000                  | -                             | -                               | -                            | 2,000,000                    |
| Xiang Bing                   | 2015A Option | 2,000,000                  | -                             | -                               | -                            | 2,000,000                    |
| Xiang Ya Bo                  | 2015A Option | 35,000,000                 | -                             | -                               | -                            | 35,000,000                   |
| Xin Luo Lin                  | 2015A Option | 2,000,000                  | -                             | -                               | -                            | 2,000,000                    |
| Total for Directors          |              | 79,000,000                 | -                             | -                               | -                            | 79,000,000                   |
| <i>Category 2: Employees</i> |              |                            |                               |                                 |                              |                              |
|                              | 2015B Option | 35,000,000                 | -                             | -                               | -                            | 35,000,000                   |
| Total for employees          |              | 35,000,000                 | -                             | -                               | -                            | 35,000,000                   |
| All categories               |              | 114,000,000                | -                             | -                               | -                            | 114,000,000                  |

# REPORT OF THE DIRECTORS

Notes:

1. The vesting period of the share options is from the date of grant until the commencement date of the exercise period.
2. During the year, no options were granted, exercised, lapsed or cancelled under the 2012 Share Option Scheme.

Additional information in relation to the Company's share option scheme are set out in note 35 to the consolidated financial statements.

## **EQUITY-LINKED AGREEMENTS**

Save as disclosed in this annual report relating to "Share Option Scheme of the Company", no equity-linked agreements were entered into during the year or subsisted at the end of the year.

## **PERMITTED INDEMNITY PROVISION**

The Bye-Laws of the Company provides that for the time being acting in relation to any of the affairs of the Company, every director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all losses, damages and expenses which he shall or may incur or sustain by or by reason of any act done about the execution of duties of his office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

## **DIRECTORS' SERVICE CONTRACT**

There is no unexpired directors' service contract which is not terminable by the Company within one year of any Director proposed for re-election at the forthcoming AGM.

## **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE**

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS**

So far as is known to any Director or chief executive of the Company, shareholders of the Company (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as at 31 December 2018 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

# REPORT OF THE DIRECTORS

## Long positions and short positions in shares or underlying shares of the Company

| Name of shareholder                       | Capacity/<br>Nature of Interest                                 | Interest<br>in Shares   | Interest<br>in Derivatives | Total Interests         | Approximate<br>percentage of<br>the Company's<br>issued shares at<br>31.12.2018 |
|---|---|-------------------------|----------------------------|-------------------------|---|
| Asia Pacific<br>(Note 1)                  | Beneficial owner/<br>Beneficial interest                        | 1,590,283,250<br>(Long) | –                          | 1,590,283,250<br>(Long) | 44.90%  |
| Karst Peak<br>Capital Limited<br>(Note 2) | Investment<br>Manager/<br>Other interest                        | 171,988,000<br>(Long)   | 150,998,000<br>(Long)      | 322,986,000<br>(Long)   | 9.12%   |
| Adam Gregory<br>LEITZES<br>(Note 2)       | Interest in<br>controlled<br>corporation/<br>corporate interest | 171,988,000<br>(Long)   | 150,998,000<br>(Long)      | 322,986,000<br>(Long)   | 9.12%   |
| Morgan Stanley<br>(Note 3)                | Interest in<br>controlled<br>corporation/<br>corporate interest | 302,265,086<br>(Long)   | 1,922<br>(Long)            | 302,267,008<br>(Long)   | 8.53%   |
|   |   | –                       | 142,577,246<br>(Short)     | 142,577,246<br>(Short)  | 4.02%   |

(Long) – Long position

(Short) – Short position

### Notes:

- The 1,590,283,250 shares of the Company are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Ou Yaping, Non-executive Director of the Company. Accordingly, Mr. Ou is deemed to be interested in the shares of the Company held by Asia Pacific under the SFO. His interests are disclosed in the section headed “Directors’ Interests or Short Positions in Shares and Share Options” above.
- Karst Peak Capital Limited (“Karst Peak”) as investment manager through a number of 100% controlled funds, holds these 322,986,000 shares of the Company, including unlisted derivative interests of 150,998,000 shares of the Company with cash settled. Adam Gregory LEITZES controlled 100% interests in Karst Peak. Accordingly, Adam Gregory LEITZES is deemed to be interested in those shares of the Company held by Karst Peak under the SFO.
- Morgan Stanley, through a number of wholly-owned direct and indirect controlled corporations, holds (i) these 302,267,008 shares of the Company (long position), including unlisted derivative interest of 1,922 shares of the Company with cash settled; and (ii) these 142,577,246 shares of the Company (short position) which is unlisted derivative with cash settled.

Save as disclosed above, as at 31 December 2018, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, there were no transactions which need to be disclosed as connected transactions and continuing connected transactions pursuant to Chapter 14A of the Listing Rules.



# REPORT OF THE DIRECTORS

## RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 34 to the consolidated financial statements. Those related party transactions did not constitute connected transactions under the Listing Rules.

## MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of any business of the Company were entered into during the year or subsisted at the end of the year.

## DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

As at 31 December 2018, the aggregate amount of financial assistance to associated companies by the Group in aggregate exceeded 8% of the assets ratios as defined in Rule 14.07(1) of the Listing Rules.

In accordance with the requirements under Rule 13.22 of the Listing Rules, a proforma combined statement of financial position of the associated companies as at 31 December 2018 is presented as follows:

|                         | HK\$'000                  |
|-------------------------|---------------------------|
| Non-current assets      | 5,721,253                 |
| Current assets          | 1,454,122                 |
| Current liabilities     | (851,911)                 |
| Non-current liabilities | <u>(7,747,259)</u>        |
| Net liabilities         | <u><u>(1,423,795)</u></u> |

The Group's attributable interest in the associated companies as at 31 December 2018 comprised net liabilities of HK\$741,935,000.

The proforma combined statement of financial position of the associated companies has been prepared by combining their statements of financial position, after making adjustments to conform with the Group's significant accounting policies as 31 December 2018.

## 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 report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the operating cost attributable to the Group's five largest suppliers was less than 30% during the year. The percentage of the revenue attributable to the Group's five largest customers was less than 30% during the year.

None of the Directors, their close associates or any shareholders, which to the knowledge of the Directors, owned more than 5% of the Company's issued shares, had an interest in the share capital of any of the five largest suppliers and customers.

# REPORT OF THE DIRECTORS

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws of Bermuda.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries for the year ended 31 December 2018.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the Directors are determined having regard to the Company's operating results, individual performance and comparable market statistics. No Director, or any of his associates, and executive is involved in dealing his own remuneration.

The Company has adopted share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 35 to the consolidated financial statements and under the heading "Share Option Scheme of the Company" of this report.

## AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Sinolink Worldwide Holdings Limited**

**Xiang Ya Bo**

*Chairman & Chief Executive Officer*

Hong Kong, 21 March 2019

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

Having established a good, credible and dynamic foundation for corporate governance practices in the Company since 2005, the Company continues to ensure the transparency and protection of shareholders' interest, as well as the stakeholders' interests.

The Company has adopted all the code provisions as set out in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules as its own corporate governance practices.

The Company understood the importance on sound corporate governance practices and recognized the changing regulatory environment. Therefore, the theme of the corporate governance practices in the Company has gone through an evolving process, from implementing the Code, evaluating the effectiveness of the Code, and responding to the rapid changes and continuous development in our corporate governance practices, if necessary.

During the year, the Company has complied with the code provisions as set out in the Code in Appendix 14 of the Listing Rules save as disclosed below.

Pursuant to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Since June 2017, Mr. Xiang Ya Bo has undertaken both the roles of the Chairman of the Board and the Chief Executive Officer of the Company. Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Xiang Ya Bo acting as both the Chairman of the Board and also as the Chief Executive Officer of the Company is acceptable and in the best interest of the Group. There are adequate balance of power and safeguards in place. The Board will review and monitor this situation periodically and would ensure that the present structure would not impair the balance of power of the Company.

## BOARD OF DIRECTORS

### Composition

Mr. Law Sze Lai retired as director after the conclusion of the annual general meeting held on 31 May 2018. Save for the above change, there was no change in directorship of the Company during the year 2018.

The Board currently comprises 8 members (each member of the Board, a "Director"). Mr. Xiang Ya Bo, the Executive Director, acts as the Chairman and Chief Executive Officer of the Company. Other Executive Director is Mr. Chen Wei and Non-executive Directors are Mr. Ou Jin Yi Hugo, Mr. Ou Yaping and Mr. Tang Yui Man Francis. The Company has 3 Independent Non-executive Directors, namely Mr. Tian Jin, Dr. Xiang Bing and Mr. Xin Luo Lin, and all Independent Non-executive Directors possess appropriate professional accounting experience and related financial management expertise and represent at least one-third of the Board.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 16 to 18 of this annual report.

# CORPORATE GOVERNANCE REPORT

Each of the Independent Non-executive Director has confirmed, in accordance with Rule 3.13 of the Listing Rules, that he is independent of the Company and the Company also considers that they are independent.

Save for the family relationship between Mr. Ou Yaping, Mr. Xiang Ya Bo and Mr. Ou Jin Yi Hugo as disclosed in the biographical details on pages 16 to 18 of this annual report, there is no other relationship (including financial, business, family or other material/relevant relationship) between any other members of the Board and in particular, between the Chairman and the Chief Executive Officer.

Pursuant to the Bye-laws of the Company (the “Bye-laws”), the Directors shall hold office subject to retirement by rotation at the annual general meeting of the Company at least once every three years. In addition, any Director appointed by the Board during a year, whether to fill a casual vacancy or as additional member to the Board, shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board) and shall then be eligible for re-election in that meeting. The term of office of each Non-executive Director (including the Independent Non-executive Director) is for a period of 1 year from 1 January 2019 to 31 December 2019 subject to retirement by rotation and re-election in accordance with the Bye-laws.

## **Responsibilities of the Board and Management**

The Board, headed by the Chairman, is responsible for providing high-level guidance and effective oversight of the management of the Company, formulation and approval of the Group’s development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management in accordance with the regulations governing the meetings of the Board and the Bye-laws.

The Executive Directors are responsible for day-to-day management of the Company’s operations. The Executive Directors conduct regular meetings with the management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential and that the Board plays an important role in implementing and monitoring internal financial control and risk management.

Matters specifically decided by the Board and those reserved for the management, such as daily management, administration and operation of the Company, etc., are reviewed by the Board on a periodic basis. The management shall report back to the Board.

The procedures to enable the Directors to seek independent professional advice in appropriate circumstances at the Company’s expenses, was established.

The Bye-laws state the responsibilities and operational procedures of the Board. The Board meets at least 4 times a year at regular intervals to consider operational reports and financial results of the Company and policies.

# CORPORATE GOVERNANCE REPORT

During the year 2018, the Board held 4 regular Board meetings (within the meanings of the Code) at approximately quarterly intervals and any Board meetings convened when necessary. Due notice and Board papers were given to all Directors prior to each meeting in accordance with the Code and the Bye-laws. An annual general meeting was also held during the year. Details of individual attendance of the Directors in respect of regular Board meetings and annual general meeting are set out below:

|   | No. of meeting(s) attended |                        |
|---|----------------------------|------------------------|
|   | Regular Board Meeting      | Annual General Meeting |
| <b>Executive Directors</b>                                  |                            |                        |
| Xiang Ya Bo ( <i>Chairman and Chief Executive Officer</i> ) | 4                          | 1                      |
| Chen Wei  | 4                          | 1                      |
| <b>Non-executive Directors</b>                              |                            |                        |
| Law Sze Lai ( <i>retired on 31 May 2018</i> )               | 1                          | 0                      |
| Ou Jin Yi Hugo  | 4                          | 1                      |
| Ou Yaping   | 4                          | 1                      |
| Tang Yui Man Francis  | 4                          | 1                      |
| <b>Independent Non-executive Directors</b>                  |                            |                        |
| Tian Jin  | 4                          | 1                      |
| Xiang Bing  | 4                          | 1                      |
| Xin Luo Lin   | 2                          | 0                      |

## Directors' Induction and Continuous Professional Development

On appointment to the Board, each newly appointed Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and management to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organised by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, the Directors are provided with written materials to develop and refresh their professional skills. The Company also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. During the year, the Company organised for the Directors and management an in-house workshop on responsibilities of directors of listed companies.

# CORPORATE GOVERNANCE REPORT

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the Code on continuous professional development during the year:

|   | Corporate Governance/Updates on laws, rules and regulations |  |
|---|---|--|
|   | Read materials  | Attend briefings/<br>in-house workshop |
| <b>Executive Directors</b>                                  |   |  |
| Xiang Ya Bo ( <i>Chairman and Chief Executive Officer</i> ) | ✓   | ✓                                      |
| Chen Wei  | ✓   | ✓                                      |
| <b>Non-executive Directors</b>                              |   |  |
| Law Sze Lai ( <i>retired on 31 May 2018</i> )               | –   | –                                      |
| Ou Jin Yi Hugo  | ✓   | ✓                                      |
| Ou Yaping   | ✓   | ✓                                      |
| Tang Yui Man Francis  | ✓   | ✓                                      |
| <b>Independent Non-executive Directors</b>                  |   |  |
| Tian Jin  | ✓   | ✓                                      |
| Xiang Bing  | ✓   | ✓                                      |
| Xin Luo Lin   | ✓   | ✓                                      |

## Chairman and Chief Executive Officer

Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Xiang Ya Bo acting as both the Chairman of the Board and the Chief Executive Officer of the Company from 28 June, 2017 onward is acceptable and in the best interest of the Group. The Board will review this situation periodically.

The Chairman provides leadership for the Board and oversees the Board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account matters proposed by other Directors. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development of the Group. During the year, the Chairman had met the Non-executive Directors and the Independent Non-executive Directors without the presence of the Executive Director.

The Chief Executive Officer, assisted by the other Executive Director, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and for maintaining an effective executive support team. The Chief Executive Officer is accountable to the Board for keeping all Directors fully informed of all major business developments and issues.

# CORPORATE GOVERNANCE REPORT

## Responsibilities of Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular Board meetings and focusing on business development and strategy, operational issues and financial performance;
- review, approval and the monitoring of all material policies, including risk management, internal control, dividend policy and other significant financial and operational matters;
- active participation on the respective board of directors of the subsidiaries and associated companies of the Company;
- approval of annual budgets and business plan for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of senior management, Board and shareholders of the Company;
- considering misuse of corporate assets and abuse of related party transactions; and
- ensuring processes in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to fulfill their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

## Corporate Governance functions

The Board is responsible for performing the following corporate governance duties as required under the Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of the Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual applicable to employees and the Directors; and
- to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.



# CORPORATE GOVERNANCE REPORT

During the year, the Board considered the following corporate governance matters:

- review of the policies (including shareholders communication policy, etc.) and practices on corporate governance and compliance with legal and regulatory requirements adopted by the Company, training for the Directors and senior management and code of conduct and compliance manual, etc.;
- review of the compliance with the Code and disclosure of the corporate governance report; and
- review of the effectiveness of the risk management and internal control systems of the Company with the assistance of the Audit Committee.

## Board Committees

A number of committees of the Board, including the Audit Committee, Nomination Committee and Remuneration Committee, have been set up by the Company, with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.

## Remuneration Committee

The Remuneration Committee comprises one Executive Director, being Mr. Xiang Ya Bo, and two Independent Non-executive Directors, being Dr. Xiang Bing and Mr. Xin Luo Lin and is chaired by Mr. Xin Luo Lin.

The terms of reference of the Remuneration Committee have complied with the Code which are posted on the website of the Company at [www.sinolinkhk.com](http://www.sinolinkhk.com).

The Remuneration Committee's responsibilities include reviewing, considering and making recommendations to the Board on (i) the Company's remuneration policy for the Directors and senior management, (ii) remuneration packages for individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments (under code provision B.1.2(c) (ii)), and (iii) remuneration of the Non-executive Directors, etc.

During the year 2018, the Remuneration Committee:

- reviewed the remuneration policy for 2018/2019;
- reviewed the remuneration of the Executive Directors, the Non-executive Directors and the Independent Non-executive Directors and management year-end bonus;
- assessed performance of the Executive Directors, reviewed and approved the services agreement of the Executive Directors; and
- made recommendations to the Board on the above matters.

# CORPORATE GOVERNANCE REPORT

The Remuneration Committee held 1 meeting during 2018 with individual attendance as follows:

| <b>Members of Remuneration Committee</b>                      | <b>No. of meeting(s)<br/>attended</b> |
|---|---------------------------------------|
| Xin Luo Lin ( <i>Chairman of the Remuneration Committee</i> ) | 1                                     |
| Xiang Bing  | 1                                     |
| Xiang Ya Bo   | 1                                     |

The Group recognises the importance of high caliber and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group (including the Directors) in accordance with the terms of the approved share option scheme adopted by the Group.

The remuneration of the members of the senior management (including all Executive Directors) by band for the year ended 31 December 2018 is set out below:

| <b>Remuneration bands (HK\$)</b> | <b>Number of person(s)</b> |
|----------------------------------|----------------------------|
| 2,000,001 to 3,000,000           | 1                          |
| 5,000,001 to 6,000,000           | 1                          |

Further particulars regarding the Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 10 to the consolidated financial statements.

## **Audit Committee**

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Tian Jin, Dr. Xiang Bing and Mr. Xin Luo Lin and is chaired by Mr. Xin Luo Lin.

The Audit Committee reports directly to the Board and reviews financial statements and internal controls in order to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor, at least twice a year, to discuss accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. The terms of reference of the Audit Committee have complied with the Code which are posted on the website of the Company at [www.sinolinkhk.com](http://www.sinolinkhk.com).

# CORPORATE GOVERNANCE REPORT

During the year 2018, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2017 and for the six months ended 30 June 2018;
- reviewed the effectiveness of the risk management and internal control systems;
- reviewed the internal and external auditor’s findings;
- reviewed and approved remuneration of auditor for financial year of 2017 and recommended the re-appointment of external auditor; and
- reviewed the implementation of policy for employees of the Group to raise concerns about possible improprieties in financial reporting, internal control or other matters, and the whistleblowing policy.

As at 31 December 2018, the arrangement for employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters was in place. No reporting has been received by the Audit Committee during the year.

The Audit Committee held 3 meetings during the year 2018 with individual attendance as follows:

| <b>Members of Audit Committee</b>                      | <b>No. of meeting(s)<br/>attended</b> |
|--|---------------------------------------|
| Xin Luo Lin ( <i>Chairman of the Audit Committee</i> ) | 2                                     |
| Tian Jin   | 3                                     |
| Xiang Bing   | 3                                     |

## **Nomination Committee**

The Nomination Committee comprises one Executive Director, being Mr. Xiang Ya Bo and three Independent Non-executive Directors, being Mr. Tian Jin, Dr. Xiang Bing and Mr. Xin Luo Lin and is chaired by Mr. Tian Jin.

The terms of reference of the Nomination Committee have complied with the Code which are posted on the website of the Company at [www.sinolinkhk.com](http://www.sinolinkhk.com).

The Nomination Committee’s responsibilities include reviewing and recommending the structure, size and composition of the Board and any change thereon; assessing the independence of the Independent Non-executive Directors and recommending the re-election of Directors, etc.

# CORPORATE GOVERNANCE REPORT

During the year 2018, the Nomination Committee:

- reviewed the structure, size and composition (including the skills, knowledge, diversity and experience) of the Board;
- reviewed the board diversity policy;
- assessed the independence of the Independent Non-executive Directors; and
- reviewed and made recommendations to the Board on re-election of retiring directors at the 2019 annual general meeting.

The Nomination Committee held 1 meeting during the year 2018 with individual attendance as follows:

| <b>Members of Nomination Committee</b>                   | <b>No. of meeting(s)<br/>attended</b> |
|--|---------------------------------------|
| Tian Jin ( <i>Chairman of the Nomination Committee</i> ) | 1                                     |
| Xiang Bing   | 1                                     |
| Xin Luo Lin  | 1                                     |
| Xiang Ya Bo  | 1                                     |

With the nomination of the Nomination Committee and recommendation of the Board, Mr. Chen Wei, Mr. Ou Jin Yu Hugo, Mr. Tang Yui Man, Francis and Mr. Tian Jin, being the Directors who have been longest in office since their last re-election, will retire and being eligible, will offer themselves for re-election by shareholders of the Company at the forthcoming 2019 annual general meeting.

## **BOARD DIVERSITY POLICY**

The Company has formulated the board diversity policy in August 2013 aiming at setting out the approach on diversity of the Board of the Company.

The Board recognizes the importance of having a diverse Board in enhancing the Board effectiveness and corporate governance. A diverse Board will include and make good use of differences in the skills, industry knowledge and experience, education, background and other qualities, etc. of Directors and does not discriminate on the ground of race, age, gender or religious belief. These differences will be taken into account in determining the optimum composition of the Board and when possible should be balanced appropriately.

The Nomination Committee has responsibility for identifying and nominating for approval by the Board, candidates for appointment to the Board. It takes responsibility in assessing the appropriate mix of experience, expertise, skills and diversity required on the Board and assessing the extent to which the required skills are represented on the Board and reviewing effectiveness of the Board.

# CORPORATE GOVERNANCE REPORT

The Nomination Committee is also responsible for reviewing and reporting to the Board in relation to Board diversity.

Board appointments will be based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board considers that Board diversity, including gender diversity, is a vital asset to the business.

At present, the Nomination Committee has not set any measurable objectives to implement the board diversity policy. However, it will consider and review the board diversity policy and setting of any measurable objectives from time to time.

## **NOMINATION POLICY**

The Nomination Committee has formulated and set out a nomination policy (“Nomination Policy”). The objective of the Nomination Policy is to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company’s business. To ensure changes to the Board composition can be managed without undue disruption, a formal, considered and transparent procedure is in place for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary). The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the year ended 31 December 2018, all Directors have complied with the required standard set out in the Model Code.

The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Model Code for management and any individuals who may have access to inside information in relation to the securities of the Company.

# CORPORATE GOVERNANCE REPORT

## EXTERNAL AUDITOR

The external auditor of the Company is Messrs. Deloitte Touche Tohmatsu (“Deloitte”). Deloitte provided professional services in respect of the audit of Company’s consolidated financial statements prepared under Hong Kong Financial Reporting Standards (“HKFRSs”) for the year ended 31 December 2018. Deloitte also reviewed the 2018 unaudited interim financial report of the Company prepared under HKFRSs.

Fees charged by Deloitte in respect of audit services for the year 2018 amounted to HK\$2,650,000. Non-audit services fees charged by Deloitte are as follows:

|  | <b>Fee</b><br><i>HK\$'000</i> |
|--|-------------------------------|
| Description of services performed  |                               |
| Review of the interim financial report of<br>the Company for the six months ended 30 June 2018 | <u>950</u>                    |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to ensure the Company maintains a sound and effective risk management and internal control systems and to review their effectiveness on an ongoing basis. The Group’s risk management and internal control systems are designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group’s internal controls covers major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management and internal control systems are designed to manage, not eliminate, the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group’s risk management framework includes the following elements:

- identify significant risks in the Group’s operation environment and evaluate the impacts of those risks on the Group’s business;
- develop necessary measures to manage those risks; and
- monitor and review the effectiveness of such measures.

The implementation of risk management framework of the Group was assisted by the Group’s internal audit team, representatives from major departments of the Company, and by engaging independent professional adviser, as a whole, to perform internal audit function. During the year ended 31 December 2018, Vision & Co. CPA Limited was engaged to conduct independent review of certain internal control matters and no significant deficiency was found during the review. On this basis, the Group could ensure new and emerging risks relevant to the Group’s operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and the Audit Committee and the Board review at least annually the Group’s risk management and internal control systems.

# CORPORATE GOVERNANCE REPORT

Audit committee reported to the Board the implementation of the Group's risk management and internal control policies which, among other things, included the determination of risk factors, evaluation of risk level and internal controls the Group could take the effectiveness of risk management and internal control measures. Based on the reports from the Group's internal audit team, representatives from major departments of the Company and independent professional adviser, and the Audit Committee, the Board considers the Group's risk management and internal control systems are adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the Code.

During the year, the Audit Committee and the Board have conducted a review of the effectiveness of the risk management and internal control systems of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management system and consideration of adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. Based on the results of the review, the systems were satisfactory with no major irregularities reported and the Group would take steps to further enhance the effectiveness of the risk management and internal control systems.

## **Handling and dissemination of inside information**

For the purposes of handling and disseminating inside information, the Group has taken various procedures and measures, including arousing the awareness to preserve confidentiality of inside information within the Group, sending blackout period and securities dealing restrictions notification to all Directors and the relevant employees regularly, disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

The Company has a policy of open communication which allows strong access to both internally and externally generated information. Pertinent information is identified, captured and communicated in a timely manner. The policy has been reviewed by the board in December 2018.

The Company provides each employee with an employee manual, which states how employees can communicate with the Company in case any problem arises. The Company considers this as a mechanism to help encourage communications between the Company and employees. Moreover, regular meetings are held to provide an avenue for mutual understanding between the Company and employees. The Company has also made arrangements for employees of the Company to raise concerns about possible improprieties in financial reporting, internal control and other matters.

The Company attaches great importance to fair disclosure as it is considered a key means by which to enhance corporate governance standards and provide necessary information to shareholders and other stakeholders, to enable them to form their own judgments, as well as providing feedback to the Company. The Company also understands that the integrity of the information provided is essential in building market confidence.





# CORPORATE GOVERNANCE REPORT

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

- is well aware of its obligations under the Securities and Futures Ordinance, the Listing Rules and the overriding principle that information which is considered as inside information should be announced promptly when it is the subject of a decision
- conducts its affairs with close regard to the “Guidelines on Disclosure of Inside Information”
- informs all directors, senior management and related staff of the latest regulations and requirements according to the letters issued or announcements published by the Securities and Futures Commission and the Stock Exchange
- has developed procedures and mechanisms for the disclosure of inside information and established the working team to evaluate whether disclosure of the inside information is required
- has established and implemented procedures for responding to external enquiries about the Company’s affairs. Only directors and delegated management of the Company can act as the Company’s spokespersons and respond to enquiries on designated areas

## GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue its operational existence for a foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

## COMPANY SECRETARY

The Company has engaged and appointed a representative from an external secretarial services provider as the company secretary of the Company. The primary contact person of the Company with the company secretary is Mr. Xiang Ya Bo, the Chairman, Chief Executive Officer and Executive Director of the Company. The company secretary of the Company has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

## CONSTITUTIONAL DOCUMENTS

There was no change in the memorandum of association and bye-laws of the Company during the year.

A copy of memorandum of association and bye-laws of the Company is posted on the website of the Company at [www.sinolinkhk.com](http://www.sinolinkhk.com).

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

### (a) Procedures for requisitioning a special general meeting

Shareholder(s) of the Company (“Shareholder(s)”) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company may, by written requisition to the Board or the company secretary of the Company signed and deposited in accordance with the bye-laws of the Company and Bermuda Companies Act 1981, require the Directors to call a special general meeting for the transaction of business specified in the requisition.

### (b) Procedures for putting forward proposals at general meetings

Shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company carrying the right to vote at general meetings of the Company or not less than 100 shareholders may, at their expense, provide a written request to the attention of the company secretary of the Company signed and deposited in accordance with the Bermuda Companies Act 1981.

### (c) Communication with Shareholders and investors

Shareholders are provided with detailed information about the Company set out in the interim/annual report and/or the circular so that they can exercise their rights in an informed manner.

The Company uses a range of communication tools, such as the annual general meeting, the annual report, interim report, various notices, announcements and circulars, to ensure the shareholders are kept well informed of key business imperatives. Procedures for conducting a poll are explained by the chairman of the meeting at the general meetings of the Company.

General meetings of the Company provide a direct forum of communication between shareholders and the Board. Shareholders are welcome to put forward enquiries to the Board or the management thereat and the Chairman of the Board, or in his absence, an Executive Director of the Company, as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent board committee, will commonly be present and available to answer questions and shareholders may also contact the company secretary of the Company to direct their written enquires.

At the 2018 annual general meeting, a resolution was proposed by the chairman of the meeting in respect of each separate issue itemized in the notice, including re-election of retiring Directors. The Chairman of the Board and certain members of all committees or their respective duly appointed delegates and representatives of Deloitte participated the 2018 annual general meeting and answered questions from Shareholders. No other general meeting was held during the year.



# CORPORATE GOVERNANCE REPORT

The Company is committed to enhancing communications and relationships with its investors. Designated management maintains an open dialogue with institutional investors and analysts to keep them abreast of the Company's developments.

The Company also maintains a website at [www.sinolinkhk.com](http://www.sinolinkhk.com), where updates on the Company's business developments and operations, financial information and news can always be found.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

28/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong

Fax: (852) 2851 0970

Email: [ir@sinolinkhk.com](mailto:ir@sinolinkhk.com)

In addition, procedures for shareholders to propose a person for election as a director of the Company is available on the Company's website at [www.sinolinkhk.com](http://www.sinolinkhk.com).

The above procedures are subject to the bye-laws of the Company and applicable laws and regulations.

## **DIRECTORS' AND AUDITOR'S RESPONSIBILITY IN PREPARING AND REPORTING THE FINANCIAL STATEMENTS**

The Directors acknowledge that it is their responsibility to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the profit and cash flows of the Group for the year. The statement of the auditor regarding their reporting responsibility for the financial statements is set out in the Independent Auditor's Report on pages 45 to 52.

# Deloitte.

# 德勤

## TO THE MEMBERS OF SINOLINK WORLDWIDE HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

### Opinion

We have audited the consolidated financial statements of Sinolink Worldwide Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as “the Group”) set out on pages 53 to 172, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters (Continued)

### Key audit matter

#### *Valuation of investment –*

*ZhongAn Online P&C Insurance Co., Ltd.  
("ZhongAn Online")*

We identified the valuation of the investment in ZhongAn Online as a key audit matter due to the inherent level of subjective judgements and estimates required by the management in the fair value measurement of the investment in ZhongAn Online.

As set out in note 18 to the consolidated financial statements, the investment in ZhongAn Online is measured at fair value since the listing of shares of ZhongAn Online on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The fair value is HK\$1,790,137,000 as at 31 December 2018. As set out in notes 4 and 33 to the consolidated financial statements, the domestic shares of ZhongAn Online are measured at fair value through other comprehensive income, which is based on a valuation performed by independent professional valuers. The fair value of the investment in ZhongAn Online is assessed based on the share price of the publicly-traded ordinary share capital of ZhongAn Online, which is listed on the Stock Exchange, discounted for lack of marketability based on estimation through Average-price Asian Put Option model with key inputs including expected time for conversion of domestic shares to listed shares, volatility of the comparable entities in the same industry and expected dividend yield.

### How our audit addressed the key audit matter

Our procedures in relation to the valuation of the investment in ZhongAn Online included:

- Understanding the rationale of the management in assessing the valuation of the investment in ZhongAn Online;
- Assessing the competence, capabilities, and objectivity of the independent professional valuers and checking the qualification of the independent professional valuers;
- Discussing the scope of work of the valuers with management of the Group and reviewing the terms of engagement to determine that there were no matters that affected the valuers' objectivity or imposed scope limitations upon the valuers;
- Obtaining an understanding from the valuers about the methodologies used and the key inputs, including time for conversion of domestic shares to listed shares, volatility of comparable entities in the same industry and expected dividend yield with available market data;
- Engaging our valuation specialists to assess the appropriateness of methodologies and key inputs used; and
- Assessing whether the disclosures of the valuation in the consolidated financial statements are sufficient and appropriate.

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters (Continued)

### Key audit matter

*Fair value of loan receivable from associates and amounts due from associates*

We identified the fair value of loan receivable from associates and amounts due from associates to be a key audit matter due to the inherent level of subjective judgements and estimates required by the management in the fair value measurement of the loan receivable from associates and the amounts due from associates.

As discussed in notes 4, 17 and 19 to the consolidated financial statements, the carrying amount of loan receivable from associates and amounts due from associates were HK\$567,146,000 and HK\$125,537,000 respectively.

As further disclosed in notes 17 and 19, the Group's major associates are principally engaged in property development and property investment in Shanghai. The Group has a loan receivable which represents a shareholder's loan advanced to the Group's associate for financing the associate's property development and property investment project in Shanghai.

### How our audit addressed the key audit matter

Our procedures in relation to the fair value of loan receivable from associates and amounts due from associates included:

- Understanding the rationale of the management in assessing the estimated future cash flow and timing of such cash flows of the loan receivable from associates and amounts due from associates as well as the discount rate applied during the fair value measurement of loan receivable from associates and amounts due from associates;
- Assessing the competence, capabilities, and objectivity of the independent professional valuers and checking the qualification of the independent professional valuers;
- Discussing with the management of the associate and performing site visit to evaluate the development status of the property development and property investment project;
- Reviewing the detailed budget report and the cash flow forecast of the property development and property investment project and comparing the budgeted revenue to their expected market prices and future rental income from the properties;

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters (Continued)

### Key audit matter

### How our audit addressed the key audit matter

#### *Fair value of loan receivable from associates and amounts due from associates (continued)*

In determining the fair value of loan receivable from associates and amounts due from associates, the management has taken into account the development status of the property development and property investment project, the expected time to sell the residential properties, the expected market price and the future rental income of the properties, where appropriate, in order to estimate the future cash flows and timing of such cash flows of the loan receivable from associates and the amounts due from associates. Also, the management engaged independent professional valuers to estimate the discount rate representing the credit risk of the associate. During the year, the Group has recognised the fair value loss of loan receivable from associates and amounts due from associates of HK\$135,722,000 and HK\$22,753,000, respectively, to the profit or loss.

- Assessing the appropriateness of the expected market prices and future rental income used by the management with reference to market prices achieved in the same projects or by comparable properties, including an evaluation of the appropriateness of the comparable properties used by the management of the Group based on our knowledge of the Group's business and real estate industry in the People's Republic of China;
- Evaluating the cash flow projection prepared by the management of the Group in respect of the expected repayments by the associate, including assessing the reasonableness of the assumptions applied, including the timing of the repayments and the discount rate applied to the forecast;
- Discussing the scope of work of the valuers with management of the Group and reviewing the terms of engagement to determine that there were no matters that affected the valuers' objectivity or imposed scope limitations upon the valuers;
- Engaging our valuation specialist to assess the appropriateness of the discount rate used;
- Obtaining an understanding from the valuers on the estimation on the discount rate about the methodologies used and the key inputs, including benchmarking the credit rating of associate, with available market data; and
- Assessing whether the disclosures related to the valuation in the consolidated financial statements are sufficient and appropriate.



# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters (Continued)

### Key audit matter

#### *Valuation of property, plant and equipment related to hotel operation*

We identified the valuation of property, plant and equipment related to hotel operation to be a key audit matter due to the judgment associated with determining the recoverable amount.

As disclosed in notes 4 and 14 to the consolidated financial statements, the carrying amount of the Group's property, plant and equipment related to hotel operation as at 31 December 2018 amounted to HK\$147,565,000; and no impairment losses in respect of these assets were recognised for the current year.

A review of the recoverable amount of the hotel buildings and the related building improvement was therefore carried out based on value in use assessment by independent qualified professional valuers.

The value in use assessment involves the application of subjective estimation about future business performance. Certain assumptions made by the management in the impairment assessment are considered to be key areas of judgement, including the occupancy rates, growth rates, room rates and the discount rates applied.

### How our audit addressed the key audit matter

Our procedures in relation to the valuation of property, plant and equipment included:

- Assessing the competence, capabilities and objectivity of the valuers, and checking the qualifications of the valuers;
- Discussing the scope of work of the valuers with the management of the Group and reviewing the terms of engagement to determine that there were no matters that affected the valuers' objectivity or imposed scope limitations upon the valuers;
- Obtaining an understanding from the valuers about the methodologies used and the key inputs, such as discount rates, occupancy rates, growth rates and room rates, adopted in the valuation model and assessing the appropriateness of these methodologies and inputs based on our knowledge of the hotel operation of the Group;
- Comparing these inputs to market data and entity-specific historical information to confirm the appropriateness of using these inputs in the valuation models;
- Engaging our valuation specialist to assess the appropriateness of the discount rate used;
- Evaluating the historical accuracy of the financial budget by comparing the historical budget to actual results; and
- Assessing whether the disclosures related to the impairment in the consolidated financial statements are sufficient and appropriate.

# INDEPENDENT AUDITOR'S REPORT

## Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 Directors and Those Charged with Governance 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 and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 HKSAAs 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 HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Chau Chi Ka.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
21 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

|  | NOTES | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|--|-------|------------------|------------------|
| Revenue  | 5     |                  |                  |
| Interest revenue from financing services business  |       | 92,775           | 25,010           |
| Revenue from other operating activities  |       | 435,649          | 373,251          |
|  |       | <hr/>            | <hr/>            |
| Total revenue  |       | 528,424          | 398,261          |
| Cost of sales  |       | (255,334)        | (210,390)        |
|  |       | <hr/>            | <hr/>            |
| Gross profit   |       | 273,090          | 187,871          |
| Other income   | 6     | 103,667          | 125,092          |
| Selling expenses   |       | (5,276)          | (3,199)          |
| Administrative expenses  |       | (131,612)        | (105,482)        |
| Other expenses   | 6     | –                | (18,244)         |
| Other gains and losses   | 7     | (397)            | (81,735)         |
| Increase in fair value of investment properties  | 16    | 81,818           | 52,486           |
| Fair value (loss) gain on other financial assets at fair value through profit or loss (“FVTPL”) and derivative financial instruments |       | (49,659)         | 35,042           |
| Impairment loss on loan receivable from associates   | 19    | –                | (122,835)        |
| Fair value loss on loan receivable from associates and amounts due from associates   | 19    | (158,475)        | –                |
| Reversal of impairment loss on property, plant and equipment   | 14    | –                | 56,558           |
| Share of results of associates   |       | (225,200)        | 95,227           |
| Finance costs  | 8     | (25,165)         | (8,070)          |
|  |       | <hr/>            | <hr/>            |
| (Loss) profit before taxation  | 9     | (137,209)        | 212,711          |
| Taxation   | 11    | (85,965)         | (66,817)         |
|  |       | <hr/>            | <hr/>            |
| (Loss) profit for the year   |       | (223,174)        | 145,894          |
|  |       | <hr/>            | <hr/>            |
| Attributable to:   |       |                  |                  |
| Owners of the Company  |       | (267,723)        | 110,088          |
| Non-controlling interests  |       | 44,549           | 35,806           |
|  |       | <hr/>            | <hr/>            |
|  |       | (223,174)        | 145,894          |
|  |       | <hr/>            | <hr/>            |
|  |       | HK cents         | HK cents         |
| (Loss) profit per share  | 13    |                  |                  |
| Basic  |       | (7.56)           | 3.11             |
|  |       | <hr/>            | <hr/>            |
| Diluted  |       | (7.56)           | 3.11             |
|  |       | <hr/>            | <hr/>            |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

|  | 2018<br><i>HK\$'000</i>   | 2017<br><i>HK\$'000</i> |
|--|---------------------------|-------------------------|
| (Loss) profit for the year   | <u>(223,174)</u>          | 145,894                 |
| Other comprehensive (expense) income   |                           |                         |
| Items that will not be reclassified to profit or loss:   |                           |                         |
| Exchange differences arising on translation to presentation currency   | (403,147)                 | 580,558                 |
| Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI"), net of tax | <u>(2,184,591)</u>        | –                       |
|  | <b>(2,587,738)</b>        | 580,558                 |
| Item that may be reclassified subsequently to profit or loss:  |                           |                         |
| Fair value gain on available-for-sale investments, net of tax  | –                         | <u>3,414,642</u>        |
| Other comprehensive (expense) income for the year, net of tax  | <u>(2,587,738)</u>        | 3,995,200               |
| Total comprehensive (expense) income for the year  | <u><b>(2,810,912)</b></u> | 4,141,094               |
| Total comprehensive (expense) income attributable to:  |                           |                         |
| Owners of the Company  | (2,345,967)               | 3,323,397               |
| Non-controlling interests  | <u>(464,945)</u>          | 817,697                 |
|  | <u><b>(2,810,912)</b></u> | 4,141,094               |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

|   | NOTES | 2018<br>HK\$'000 | 2017<br>HK\$'000  |
|---|-------|------------------|-------------------|
| <b>Non-current assets</b>                             |       |                  |                   |
| Property, plant and equipment                         | 14    | 258,820          | 314,444           |
| Prepaid lease payments                                | 15    | 58,412           | 62,492            |
| Investment properties                                 | 16    | 2,654,600        | 2,698,723         |
| Amounts due from associates                           | 17    | 125,537          | 170,744           |
| Interests in associates                               | 17    | 115,681          | 177,115           |
| Available-for-sale investments                        | 18    | –                | 4,968,197         |
| Equity instruments at FVTOCI                          | 18    | 1,894,958        | –                 |
| Other receivables                                     | 11    | 158,399          | 158,399           |
| Loans receivables                                     | 22    | 1,491            | 466,091           |
| Loan receivable from associates                       | 19    | 567,146          | 1,207,906         |
| Finance lease receivables                             | 23    | 69,150           | –                 |
| Deferred tax assets                                   | 30    | 828              | –                 |
| Long-term bank deposits                               | 25    | 50,228           | 63,400            |
| Pledged bank deposits                                 | 25    | 776,256          | –                 |
|   |       | <b>6,731,506</b> | <b>10,287,511</b> |
| <b>Current assets</b>                                 |       |                  |                   |
| Stock of properties                                   | 20    | 867,991          | 887,987           |
| Trade and other receivables, deposits and prepayments | 21    | 91,593           | 53,594            |
| Loans receivables                                     | 22    | 360,389          | 600,560           |
| Finance lease receivables                             | 23    | 84,221           | 111,463           |
| Other financial assets at FVTPL                       | 24    | 1,304,546        | 256,720           |
| Prepaid lease payments                                | 15    | 1,227            | 1,285             |
| Short-term bank deposits                              | 25    | 141,919          | 382,177           |
| Structured deposits                                   | 26    | 239,726          | 577,751           |
| Pledged bank deposits                                 | 25    | 601              | 629               |
| Cash and cash equivalents                             | 25    | 1,538,713        | 1,928,596         |
|   |       | <b>4,630,926</b> | <b>4,800,762</b>  |



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

|   | NOTES | 2018<br>HK\$'000 | 2017<br>HK\$'000  |
|---|-------|------------------|-------------------|
| <b>Current liabilities</b>                            |       |                  |                   |
| Trade payables, deposits received and accrued charges | 27    | 501,388          | 543,982           |
| Contract liabilities                                  | 28    | 10,865           | –                 |
| Taxation payable                                      |       | 710,667          | 736,052           |
| Borrowings – due within one year                      | 29    | 341,205          | 752,572           |
|   |       | <u>1,564,125</u> | <u>2,032,606</u>  |
| Net current assets                                    |       | <u>3,066,801</u> | <u>2,768,156</u>  |
| Total assets less current liabilities                 |       | <u>9,798,307</u> | <u>13,055,667</u> |
| <b>Non-current liabilities</b>                        |       |                  |                   |
| Borrowings – due after one year                       | 29    | 685,599          | 24,731            |
| Deferred tax liabilities                              | 30    | 825,060          | 1,574,019         |
|   |       | <u>1,510,659</u> | <u>1,598,750</u>  |
| Net assets  |       | <u>8,287,648</u> | <u>11,456,917</u> |
| <b>Capital and reserves</b>                           |       |                  |                   |
| Share capital   | 31    | 354,111          | 354,111           |
| Reserves  |       | 6,589,900        | 9,269,937         |
| Equity attributable to owners of the Company          |       | <u>6,944,011</u> | <u>9,624,048</u>  |
| Non-controlling interests                             |       | <u>1,343,637</u> | <u>1,832,869</u>  |
| Total equity  |       | <u>8,287,648</u> | <u>11,456,917</u> |

The consolidated financial statements on pages 53 to 172 were approved and authorised for issue by the Board of Directors on 21 March 2019 and are signed on its behalf by:

**Xiang Ya Bo**  
CHAIRMAN & CHIEF EXECUTIVE OFFICER

**Chen Wei**  
EXECUTIVE DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

|  | Attributable to owners of the Company |               |                     |                      |                      |                      |                                 |                   |             |                           |             |          |
|--|---------------------------------------|---------------|---------------------|----------------------|----------------------|----------------------|---------------------------------|-------------------|-------------|---------------------------|-------------|----------|
|  | Share capital                         | Share premium | Translation reserve | Share option reserve | General reserves     | Contributed surplus  | Investments revaluation reserve | Retained earnings | Total       | Non-controlling interests | Total       |          |
|  | HK\$'000                              | HK\$'000      | HK\$'000            | HK\$'000             | HK\$'000<br>(note a) | HK\$'000<br>(note b) | HK\$'000                        | HK\$'000          | HK\$'000    | HK\$'000                  | HK\$'000    | HK\$'000 |
| At 1 January 2017  | 354,111                               | 1,824,979     | 207,782             | 80,594               | 182,708              | 367,782              | -                               | 3,282,695         | 6,300,651   | 1,009,172                 | 7,309,823   |          |
| Profit for the year  | -                                     | -             | -                   | -                    | -                    | -                    | -                               | 110,088           | 110,088     | 35,806                    | 145,894     |          |
| Other comprehensive income for the year  | -                                     | -             | 481,596             | -                    | -                    | -                    | 2,731,713                       | -                 | 3,213,309   | 781,891                   | 3,995,200   |          |
| Total comprehensive income for the year  | -                                     | -             | 481,596             | -                    | -                    | -                    | 2,731,713                       | 110,088           | 3,323,397   | 817,697                   | 4,141,094   |          |
| Contribution from a non-controlling shareholder of a non-wholly owned subsidiary | -                                     | -             | -                   | -                    | -                    | -                    | -                               | -                 | -           | 6,000                     | 6,000       |          |
| Share option lapsed  | -                                     | -             | -                   | (1,294)              | -                    | -                    | -                               | 1,294             | -           | -                         | -           |          |
| Transfers  | -                                     | -             | -                   | -                    | 94                   | -                    | -                               | (94)              | -           | -                         | -           |          |
| At 31 December 2017  | 354,111                               | 1,824,979     | 689,378             | 79,300               | 182,802              | 367,782              | 2,731,713                       | 3,393,983         | 9,624,048   | 1,832,869                 | 11,456,917  |          |
| Adjustments (note 2)   | -                                     | -             | -                   | -                    | -                    | -                    | 6,035                           | (340,105)         | (334,070)   | 3,228                     | (330,842)   |          |
| At 1 January 2018 (restated)   | 354,111                               | 1,824,979     | 689,378             | 79,300               | 182,802              | 367,782              | 2,737,748                       | 3,053,878         | 9,289,978   | 1,836,097                 | 11,126,075  |          |
| Loss for the year  | -                                     | -             | -                   | -                    | -                    | -                    | -                               | (267,723)         | (267,723)   | 44,549                    | (223,174)   |          |
| Other comprehensive expense for the year   | -                                     | -             | (330,230)           | -                    | -                    | -                    | (1,748,014)                     | -                 | (2,078,244) | (509,494)                 | (2,587,738) |          |
| Total comprehensive expense for the year   | -                                     | -             | (330,230)           | -                    | -                    | -                    | (1,748,014)                     | (267,723)         | (2,345,967) | (464,945)                 | (2,810,912) |          |
| Disposal of a non-wholly owned subsidiary  | -                                     | -             | -                   | -                    | -                    | -                    | -                               | -                 | -           | (3,902)                   | (3,902)     |          |
| Dividend paid to non-controlling shareholder of a subsidiary                     | -                                     | -             | -                   | -                    | -                    | -                    | -                               | -                 | -           | (23,613)                  | (23,613)    |          |
| Transfers  | -                                     | -             | -                   | -                    | 709                  | -                    | -                               | (709)             | -           | -                         | -           |          |
| At 31 December 2018  | 354,111                               | 1,824,979     | 359,148             | 79,300               | 183,511              | 367,782              | 989,734                         | 2,785,446         | 6,944,011   | 1,343,637                 | 8,287,648   |          |

## Notes:

- General reserves represent the enterprise expansion fund and general reserve fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the People's Republic of China (the "PRC"), which are not available for distribution.
- Contributed surplus of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>   |                  |                  |
| (Loss) profit before taxation   | <b>(137,209)</b> | 212,711          |
| Adjustments for:  |                  |                  |
| Share of results of associates  | <b>225,200</b>   | (95,227)         |
| Depreciation of property, plant and equipment   | <b>53,063</b>    | 78,381           |
| Release of prepaid lease payments   | <b>1,269</b>     | 1,242            |
| Interest income   | <b>(190,841)</b> | (140,878)        |
| Interest expenses   | <b>25,165</b>    | 8,070            |
| Dividend income   | <b>(246)</b>     | (1,939)          |
| Increase in fair value of investment properties                                       | <b>(81,818)</b>  | (52,486)         |
| Impairment loss on loan receivable from associates                                    | –                | 122,835          |
| Fair value loss of loan receivable from associates<br>and amounts due from associates | <b>158,475</b>   | –                |
| (Reversal of provision for) provision for loss allowance on<br>– loans receivables    | <b>(590)</b>     | –                |
| – finance lease receivables   | <b>1,181</b>     | –                |
| – trade receivables   | <b>117</b>       | –                |
| Reversal of impairment loss on property,<br>plant and equipment                       | –                | (56,558)         |
| Gain on disposal of property, plant and equipment                                     | –                | (57)             |
| Impairment loss on available-for-sale investments                                     | –                | 17,021           |
| Gain on disposal of a subsidiary  | <b>(2,098)</b>   | –                |
| Operating cash flows before movements<br>in working capital                           | <b>51,668</b>    | 93,115           |
| Increase in stock of properties   | <b>(21,255)</b>  | (9,071)          |
| Decrease (increase) in loans receivables  | <b>622,761</b>   | (982,567)        |
| Increase in finance lease receivables   | <b>(49,906)</b>  | (107,726)        |
| Increase in trade and other receivables, deposits<br>and prepayments                  | <b>(14,974)</b>  | (20,188)         |
| (Increase) decrease in other financial assets at FVTPL                                | <b>(246,559)</b> | 164,068          |
| Increase in derivative financial instruments  | –                | (6,118)          |
| (Decrease) increase in trade payables, deposits received<br>and accrued charges       | <b>(5,087)</b>   | 8,089            |
| Decrease in contract liabilities  | <b>(2,038)</b>   | –                |
| Cash generated from (used in) operations  | <b>334,610</b>   | (860,398)        |
| Taxation paid   | <b>(51,022)</b>  | (34,065)         |
| Interest received from financing services business                                    | <b>92,775</b>    | 25,010           |
| <b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>                                   | <b>376,363</b>   | (869,453)        |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

|  | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|--|------------------|------------------|
| <b>INVESTING ACTIVITIES</b>  |                  |                  |
| Other interest received  | 84,367           | 116,323          |
| Dividend received  | 246              | 1,939            |
| Placement of long-term bank deposits   | (51,948)         | –                |
| Placement of short-term bank deposits  | (448,764)        | (1,156,104)      |
| Withdrawal of short-term bank deposits   | 739,705          | 1,336,421        |
| Placement of structured deposits   | (1,208,973)      | (1,379,190)      |
| Withdrawal of structured deposits  | 1,531,287        | 1,936,415        |
| Placement of pledged bank deposits   | (802,834)        | –                |
| Proceeds from disposal of property, plant and equipment                          | –                | 139              |
| Purchase of property, plant and equipment  | (9,914)          | (9,735)          |
| Repayment of loan advances from independent third parties                        | 50,000           | 26,336           |
| Investment in associates   | –                | (174,239)        |
| Advances to associates   | (14,299)         | (16,038)         |
| Purchase of available-for-sale investments                                       | –                | (114,276)        |
| Proceed from disposal of available-for-sale investments                          | –                | 3,835            |
| Purchase of equity instruments at FVTOCI   | (47,532)         | –                |
| Purchase of Redeemable Preference Shares (defined in note 17)                    | (600,000)        | –                |
| Purchase of redeemable convertible preference shares (note 24 (ii))              | (113,482)        | –                |
| Net cash outflow on disposal of a subsidiary (note 7 (iii))                      | (7,389)          | –                |
| <b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>                              | <b>(899,530)</b> | <b>571,826</b>   |
| <b>FINANCING ACTIVITIES</b>  |                  |                  |
| New borrowing raised   | 1,010,640        | 1,049,891        |
| Repayment of borrowings  | (742,798)        | (392,087)        |
| Interest paid  | (25,165)         | (8,070)          |
| Contribution from a non-controlling shareholder of a non-wholly owned subsidiary | –                | 6,000            |
| Dividend paid to non-controlling shareholder of a subsidiary                     | (23,613)         | –                |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>  | <b>219,064</b>   | <b>655,734</b>   |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                      | <b>(304,103)</b> | <b>358,107</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>                        | <b>1,928,596</b> | <b>1,385,627</b> |
| Effect of foreign exchange rate changes  | (85,780)         | 184,862          |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>                              | <b>1,538,713</b> | <b>1,928,596</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 1. GENERAL

Sinolink Worldwide Holdings Limited (“the Company”) is a public limited company incorporated in Bermuda as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The substantial shareholder of the Company is Asia Pacific Promotion Limited, a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Ou Yaping, a non-executive director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) while the functional currency of the Company is Renminbi (“RMB”). The reason for selecting HK\$ as its presentation currency is that the Company is a public company with its shares listed on the Stock Exchange.

The Company is an investment holding company. The activities of its subsidiaries are set out in note 42.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### **New and Amendments to HKFRSs that are mandatorily effective for the current year**

The Company and its subsidiaries (collectively referred to as the “Group”) has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

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

In addition, the Group has applied Amendments to HKFRS 9 “Prepayment Features with Negative Compensation” in advance of the effective date, i.e. 1 January 2019.

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

### 2.1 HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded Hong Kong Accounting Standards (“HKAS”) 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings or other components of equity, as appropriate and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Property management fee income;
- Consultation service income from financing services business;
- Service income from finance leasing and loan financing services; and
- Hotel operation income from room rentals, food and beverage sales and other ancillary services.

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

### 2.1 HKFRS 15 “Revenue from Contracts with Customers” (Continued)

*Summary of effects arising from initial application of HKFRS 15*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

|   |      | Carrying<br>amounts<br>previously<br>reported at<br>31 December<br>2017 | Reclassification | Carrying<br>amounts<br>under<br>HKFRS 15 at<br>1 January<br>2018* |
|---|------|---|------------------|---|
|   | Note | HK\$'000  | HK\$'000         | HK\$'000  |
| <b>Current liabilities</b>  |      |   |                  |   |
| Trade and other payables,<br>deposits received<br>and accrued charges | (a)  | 543,982   | (13,450)         | 530,532   |
| Contract liabilities  | (a)  | –   | 13,450           | 13,450  |

\* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note:

- (a) As at 1 January 2018, advances from customers of HK\$13,450,000 in respect of property management contracts previously included in trade and other payables, deposits received and accrued charges were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group’s consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for current year for each of the line items affected. Line items that were not affected by the changes have not been included.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

### 2.1 HKFRS 15 “Revenue from Contracts with Customers” (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

Impact on the consolidated statement of financial position

|   | As reported<br><i>HK\$'000</i> | Adjustments<br><i>HK\$'000</i> | Amounts<br>without<br>application of<br>HKFRS 15<br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|---|
| <b>Current Liabilities</b>  |                                |                                |   |
| Trade and other payables,<br>deposits received<br>and accrued charges | 501,388                        | 10,865                         | 512,253   |
| Contract liabilities  | 10,865                         | (10,865)                       | –   |

Impact on the consolidated statement of cash flows

|   | As reported<br><i>HK\$'000</i> | Adjustments<br><i>HK\$'000</i> | Amounts<br>without<br>application of<br>HKFRS 15<br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|---|
| <b>Operating activities</b>   |                                |                                |   |
| Decrease in trade payables,<br>deposits received<br>and accrued charges | (5,087)                        | (2,038)                        | (7,125)   |
| Decrease in contract liabilities  | (2,038)                        | 2,038                          | –   |

There is no material impact on the revenue recognition on the timing and amounts of revenue recognised upon the application of HKFRS 15 on 1 January 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

### 2.2 HKFRS 9 “Financial Instruments” and the related amendments

In the current year, the Group has applied HKFRS 9 “Financial Instruments”, Amendments to HKFRS 9 “Prepayment Features with Negative Compensation” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses (“ECL”) for financial assets, finance lease receivables and financial guarantee contracts; and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued) 2.2 HKFRS 9 “Financial Instruments” and the related amendments (Continued)

Summary of effect arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

|   | Available-for-sale investments | Equity instruments at fair value through other comprehensive income (“FYOCI”) | Financial assets at fair value through profit or loss (“FVTPL”) | Trade and other receivables, deposits and prepayment | Loan receivables | Finance lease receivables | Loan receivable from associate | Amounts due from associates | Structured deposits | Trade and other payables, deposits received and accrued charges | Contract liabilities | Deferred tax assets | Deferred tax liabilities | Investments revaluation reserve | Retained earnings | Non-controlling interests |   |
|---|--------------------------------|---|---|--|------------------|---------------------------|--------------------------------|-----------------------------|---------------------|---|----------------------|---------------------|--------------------------|---------------------------------|-------------------|---------------------------|---|
| Notes   | HK\$’000                       | HK\$’000  | HK\$’000  | HK\$’000   | HK\$’000         | HK\$’000                  | HK\$’000                       | HK\$’000                    | HK\$’000            | HK\$’000  | HK\$’000             | HK\$’000            | HK\$’000                 | HK\$’000                        | HK\$’000          | HK\$’000                  |   |
| Closing balance at 31 December 2017                 |                                |   |   |  |                  |                           |                                |                             |                     |   |                      |                     |                          |                                 |                   |                           |   |
| - HKAS 39   | 4,968,197                      | -   | 256,720   | 53,594   | 1,066,651        | 111,463                   | 1,207,906                      | 170,744                     | 577,751             | (543,982)   | -                    | -                   | (1,574,019)              | (2,731,713)                     | (3,393,993)       | (1,882,869)               |   |
| Effect arising from initial application of HKFRS 15 | -                              | -   | -   | -  | -                | -                         | -                              | -                           | -                   | 13,450  | (13,450)             | -                   | -                        | -                               | -                 | -                         | - |
| Effect arising from initial application of HKFRS 9: |                                |   |   |  |                  |                           |                                |                             |                     |   |                      |                     |                          |                                 |                   |                           |   |
| Reclassification                                    |                                |   |   |  |                  |                           |                                |                             |                     |   |                      |                     |                          |                                 |                   |                           |   |
| From available-for-sale investments                 | (4,968,197)                    | 4,873,878   | 80,808  | 13,511   | -                | -                         | -                              | -                           | -                   | -   | -                    | -                   | -                        | -                               | -                 | -                         | - |
| From loans and receivables                          | -                              | -   | 1,956,401   | -  | -                | -                         | (1,207,906)                    | (170,744)                   | (577,751)           | -   | -                    | -                   | -                        | -                               | -                 | -                         | - |
| Remeasurement                                       |                                |   |   |  |                  |                           |                                |                             |                     |   |                      |                     |                          |                                 |                   |                           |   |
| Impairment under ECL model                          | -                              | -   | -   | -  | (2,631)          | (120)                     | -                              | -                           | -                   | -   | -                    | 688                 | -                        | -                               | 2,063             | -                         | - |
| From cost less impairment to fair value             | -                              | 11,663  | 6,977   | -  | -                | -                         | -                              | -                           | -                   | -   | -                    | -                   | (5,361)                  | (6,035)                         | (4,186)           | (3,228)                   |   |
| From amortised cost to fair value                   | -                              | -   | (342,228)   | -  | -                | -                         | -                              | -                           | -                   | -   | -                    | -                   | -                        | -                               | 342,228           | -                         |   |
| Opening balance at 1 January 2018                   | -                              | 4,885,731   | 1,958,676   | 67,105   | 1,064,020        | 111,343                   | -                              | -                           | -                   | (530,532)   | (13,450)             | 688                 | (1,579,400)              | (2,737,748)                     | (3,053,876)       | (1,886,097)               |   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

### 2.2 HKFRS 9 “Financial Instruments” and the related amendments (Continued)

*Summary of effect arising from initial application of HKFRS 9 (Continued)*

(a) Available-for-sale investments

From AFS equity investments to FVTOCI

The Group elected to present in other comprehensive income (“OCI”) for the fair value changes of its equity investments previously classified as available-for-sale investments, of which HK\$58,449,000 related to unquoted equity investments previously measured at cost less impairment and HK\$4,815,429,000 related to unquoted equity investment previously measured at fair value under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK\$4,873,878,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gains of HK\$11,853,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and investments revaluation reserve as at 1 January 2018. The fair value gain of HK\$2,731,713,000 relating to those investments previously carried at fair value continued to accumulate in investments revaluation reserve. The deferred tax liabilities and non-controlling interests increased by HK\$3,637,000 and HK\$2,181,000, respectively. No deferred tax asset has been recognised in relation to deductible temporary difference of HK\$2,692,000 as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

From AFS investments to FVTPL

At the date of initial application of HKFRS 9, the Group’s equity investments of HK\$59,808,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gains of HK\$6,977,000 relating to those equity investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained earnings as at 1 January 2018. The deferred tax liabilities and non-controlling interests increased by HK\$1,744,000 and HK\$1,047,000, respectively. The Group’s unlisted fund investments of HK\$20,100,000, of which previously measured at fair value under HKAS 39, were reclassified from available-for-sale investments to financial assets at FVTPL.

(b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the coupon notes linked with listed equity securities, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of these investments of HK\$131,655,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

### 2.2 HKFRS 9 “Financial Instruments” and the related amendments (Continued)

*Summary of effect arising from initial application of HKFRS 9 (Continued)*

(b) Financial assets at FVTPL and/or designated at FVTPL (Continued)

Remaining investments are equity securities and debt instruments (representing the listed senior notes) which are required to be classified as FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

(c) Loans and receivables

Loan receivable from associates of HK\$1,207,906,000 and amounts due from associates of HK\$170,744,000 previously classified as loans and receivables were reclassified to FVTPL upon the application of HKFRS 9. In accordance with the investment agreement, the Group and the other shareholder contributed minimal amount of capital and substantially all portion of the associates’ capital expenditures/operations were funded through loan receivable from associates and amounts due from associates by the Group and a detailed analysis of the particular facts and circumstances at the date of origination of the advances led to the conclusion that the contractual cash flows of the advances did not represent purely a return on time value of money and credit risk. Loan receivable from associates and amounts due from associates represent an investment in the property project of the associates and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding.

Structured deposits of HK\$577,751,000 previously classified as loans and receivables were also reclassified to FVTPL upon application of HKFRS 9 because their contractual cash flows do not represent solely the payments of principal and interest on the principal amount outstanding.

The related fair value losses of HK\$342,228,000 was adjusted to financial assets at FVTPL and retained earnings as at 1 January 2018.

(d) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and finance lease receivables. To measure the ECL, trade receivables and finance lease receivables have been grouped based on shared credit risk characteristics as at 1 January 2018.

Loss allowances for other financial assets at amortised cost mainly comprise of loans receivables, long-term and short-term bank deposits, pledged bank deposits and cash and cash equivalents, and financial guarantee contracts are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

### 2.2 HKFRS 9 “Financial Instruments” and the related amendments (Continued)

*Summary of effect arising from initial application of HKFRS 9 (Continued)*

(d) Impairment under ECL model (Continued)

For long-term and short-term bank deposits, pledged bank deposits and cash and cash equivalents, the Group only transacts with reputable banks with high credit ratings assigned by international credit-rating agencies and consider the risk of default is regard as low and 12-month ECL is insignificant.

For outstanding financial guarantees provided to banks for the mortgage loans arranged for the purchasers of the Group’s properties of HK\$20,220,000 as at 1 January 2018, the Group considers that the ECL on the financial guarantee contracts is insignificant after the assessment by the management of the Group.

As at 1 January 2018, the additional credit loss allowance of HK\$2,751,000 has been recognised against retained earnings. The additional loss allowance is charged against the respective assets. The deferred tax assets increased by HK\$688,000.

All loss allowances for financial assets including loans receivables and finance lease receivables at amortised cost as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 is as follows:

|  | Loans<br>receivables<br>HK\$'000 | Finance lease<br>receivables<br>HK\$'000 |
|--|----------------------------------|--|
| At 31 December 2017 – HKAS 39                        | –                                | –  |
| Amounts remeasured through opening retained earnings | 2,631                            | 120                                      |
| At 1 January 2018                                    | <u>2,631</u>                     | <u>120</u>                               |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) New and amendments to HKFRSs in issue but not yet effective

|                                    |  |
|------------------------------------|--|
| HKFRS 16                           | Leases <sup>1</sup>  |
| HKFRS 17                           | Insurance Contracts <sup>3</sup>   |
| HK(IFRIC) – Int 23                 | Uncertainty over Income Tax Treatments <sup>1</sup>  |
| Amendments to HKFRS 3              | Definition of a Business <sup>4</sup>  |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup> |
| Amendments to HKAS 1 and HKAS 8    | Definition of material <sup>5</sup>  |
| Amendments to HKAS 19              | Plan Amendment, Curtailment or Settlement <sup>1</sup>   |
| Amendments to HKAS 28              | Long-term Interests in Associates and Joint Ventures <sup>1</sup>                                  |
| Amendments to HKFRSs               | Annual Improvements to HKFRSs 2015 – 2017 Cycle <sup>1</sup>                                       |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

### HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued) HKFRS 16 “Leases” (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$11,110,000 as disclosed in note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

The Group currently considers refundable rental deposits paid of HK\$1,730,000 and refundable rental deposits received of HK\$54,622,000 as at 31 December 2018 as obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost upon application of HKFRS 16 and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments. The directors of the Company are in the process of assessing the impact on the application of HKFRS 16 in the foreseeable future.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elected the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values at the end of the reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the assets 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. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- has exposure, or rights, to variable returns from its involvement with the investee; and
- has the ability to use its power over the investee to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

### Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

#### Changes in the Group's interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate.

#### Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Interests in associates (Continued)

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The Group recognises revenue under HKFRS 15 mainly from the (i) property management income; (ii) service income from finance leasing and loan financing services; (iii) consultancy service income from financing services; and (iv) hotel operation income.

#### **Property management fee income/consultancy service income from financing services/hotel operation income**

Under the terms of these contracts, the customer of the Group simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs and thus these income are recognised over time.

#### **Service income from finance leasing and loan financing services**

Service income from finance leasing and loan financing services is recognised at a point in time when the results from the services required by the customers of the Group have transferred.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

#### Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

#### Service income

Service income including project management fee income, property management services and other financing services is recognised when services are provided.

Hotel operation income from room rentals, food and beverage sale and other ancillary service is recognised when services are provided.

#### Finance lease interest income

Finance lease interest income represents interest income from financial leasing business, is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

#### Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

### Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued) Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

#### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating lease, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

#### Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) is allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under a finance lease.

### Stock of properties

Stock of properties includes properties under development for sale.

The carrying value of properties under development comprises the land cost together with development expenditure, which includes construction costs, capitalised interest and ancillary borrowing costs. The stock of properties are stated at the lower of cost and net realisable value.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued) Impairment losses on tangible assets (Continued)

The recoverable amount of tangible assets is estimated individually, or when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### Financial instruments

Financial assets and financial liabilities are recognised in a consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued) Financial instruments (Continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group's ordinary course of business are presented as revenue.

### Financial assets

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- 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 that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)*

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investments revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and deposits, loans receivables, finance lease receivables, long-term and short-term bank deposits, pledged bank deposits, bank balances and financial guarantee contracts). The amount of ECL is updated at the end of the reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of the reporting period. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the end of the reporting period as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and finance lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)*

(i) Significant increase in credit risk (Continued)

- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)*

(iii) Credit-impaired financial assets

A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have been occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer of the borrower;
- A breach of contract, such as a default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probably that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice when appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 “Leases”.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)*

(v) Measurement and recognition of ECL (Continued)

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and finance lease receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)*

(v) Measurement and recognition of ECL (Continued)

The Group recognises an impairment reversal or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, loans receivables, finance lease receivables and financial guarantee contracts where the corresponding adjustment is recognised through a loss allowance account.

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) Financial assets at FVTPL

Financial assets at FVTPL are mainly those classified as financial assets held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)*

(i) Financial assets at FVTPL (Continued)

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the “fair value gain/loss on financial assets at FVTPL and derivative financial instruments” line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 33.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan receivable from associates, loans receivables, trade and other receivables, amounts due from associates, long-term and short-term bank deposits, pledged bank deposits, liability component of structured deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment losses.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and traded in an active market are measured at fair value at the end of the reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of available-for-sale debt instruments relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

When, subsequently, a reliable measure becomes available for an equity instrument that was previously held at cost, the asset is measured at fair value. The difference between the financial asset's carrying amount and its fair value is recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised in profit or loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables from financing business and trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

#### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of an available-for-sale financial asset, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

#### **Financial liabilities and equity instruments**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity instruments (Continued)

##### *Financial liabilities at amortised cost*

Financial liabilities, other than derivative financial instruments, including borrowings, trade payables, deposits received and accrued charges are subsequently measured at amortised cost using the effective interest method.

##### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9 (since 1 January 2018)/HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” (before application of HKFRS 9 on 1 January 2018); and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

##### *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

##### *Embedded derivatives (under HKFRS 9 since 1 January 2018)*

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

##### *Embedded derivatives (before application of HKFRS 9 on 1 January 2018)*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

#### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued) Taxation (Continued)

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### Retirement benefits costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

### Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

### Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued) Share-based payment arrangements (Continued)

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Deferred taxation on investment properties

For the purposes of measuring deferred taxation liabilities arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. The investment properties held by the Group's associates are also held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining deferred taxation on investment properties, the directors of the Company have determined that the presumption set out in HKAS 12 "Income Taxes" that investment properties measured using the fair value model are recovered through sale is rebutted. Thus, the Group has recognised deferred tax liabilities on the fair value change of the Group's investment properties based on the enterprise income tax ("Enterprise Income Tax") in the PRC.

#### Key sources of estimation uncertainty

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

#### Fair value of the investment in ZhongAn Online P&C Insurance Co., Ltd. (“ZhongAn Online”)

During the assessment of the fair value of equity interest of ZhongAn Online, the directors of the Company use their judgment in selecting appropriate valuation inputs for the valuation of domestic shares of ZhongAn Online owned by the Group, which is different from the publicly-traded ordinary share capital of ZhongAn Online (“ZhongAn Online H Shares”). The Group engaged independent professional valuers to perform the valuation. The fair value of the investment in ZhongAn Online is assessed based on share price of ZhongAn Online H Shares and discount for lack of marketability based on estimation through Average-price Asian Put Option model with key inputs including expected time for conversion of domestic shares to listed shares, volatility of the comparable entities in the same industry and expected dividend yield. The valuation involves certain estimations. Where there are any changes in the assumptions due to the market conditions, the estimate of fair value of equity interest in ZhongAn Online may be significantly affected. As at 31 December 2018, the fair value of equity interest in ZhongAn Online classified as equity instruments at FVTOCI was approximately HK\$1,790,137,000 (2017: available-for-sale investment of HK\$4,807,679,000). Details of the valuation methodology are disclosed in note 33.

#### Fair value of loan receivable from associates and amounts due from associates

The Group has a loan receivable from associates (see note 19) which represents a shareholder’s loan advanced to the Group’s associate for financing a property development and property investment project in Shanghai and amounts due from associates (see note 17) represent receivables from associates which are mainly arisen from provision of project management services by the Group.

Upon the application of HKFRS 9 as at 1 January 2018, loan receivable from associates as well as the amounts due from associates represent an investment in the project of Rockefeller Group Asia Pacific, Inc. (“RGAP”) and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding and loan receivable from associates as well as the amounts due from associates are both measured at FVTPL. The fair values of these amounts are dependent on the cashflow to be generated from the property development and property investment project and the discount rate applied. Where the actual future cash flows or discount rate are changed, a change of fair value may arise.

In determining the fair values of loan receivable from associates and amounts due from associates as at 31 December 2018, the directors of the Company have taken into account the development status of the property development and property investment project, the expected time to sell the residential properties and the expected market price and the future rental income of the properties, where appropriate, in order to determine the estimated future cash flows and timing of such cash flows of the loan receivable from associates and the amounts due from associates. Also, the Group engaged independent professional valuers to perform the estimation of discount rate representing the credit risk of the associates. As at 31 December 2018, the carrying amounts of loan receivable from associates and amounts due from associates are HK\$567,146,000 and HK\$125,537,000, respectively. A fair value loss of HK\$158,475,000 was recognised during the year ended 31 December 2018.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

#### Impairment of property, plant and equipment

Assessing impairment of the hotel building and the building improvement in hotel requires an estimation of its recoverable amounts which is the higher of value in use and fair value less costs of disposal. If there is any indication that an asset may be impaired, recoverable amount shall be estimated for individual asset when there are no recent transaction prices for similar properties in similar location. The Group determines the recoverable amount of the individual asset based on the value in use calculation. The value in use assessment involves the application of subjective estimation about future business performances. Certain assumptions made by the directors of the Company and the estimation made by independent professional valuers in the impairment assessment are considered to be key areas of judgement, including the occupancy rates, growth rates, room rates and the discount rates applied. The discount rate represents a rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Where the actual future cash flows are less than expected or there is a downward revision of future estimated cash flows due to unfavourable changes in facts and circumstances, a material impairment loss may arise. Details of the recoverable amount calculation of the asset are disclosed in note 14. During the year ended 31 December 2018, the Group has no impairment loss on property, plant and equipment. During the year ended 31 December 2017, the Group has reversed of impairment loss on property plant and equipment of HK\$56,558,000.

#### Fair value measurement and valuation process

The directors of the Company of the Company is responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engaged independent professional valuers to perform the valuation. The directors of the Company works closely with the independent professional valuers to establish the appropriate valuation techniques and inputs to the model. The directors of the Company reports to executive directors semi-annually to explain the cause of fluctuations in the fair value of the assets.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of financial instruments and investment properties. Notes 33 and 16 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of financial instruments and investment properties, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

#### Investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market conditions such as market evidence of transaction prices for similar properties in the same locations and conditions or, when appropriate, by considering the capitalised income to be derived from the existing tenancies and the reversionary potential of the properties. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation are reflective of the current market conditions and the current condition of the properties. Changes to these assumptions would result in changes in the fair values of the Group's and the associates' investment properties and the corresponding adjustments to the amount of fair value gain or loss of the Group's investment properties and share of results of associates reported in the consolidated statement of profit or loss. As at 31 December 2018, the carrying amount of investment properties is HK\$2,654,600,000 (2017: HK\$2,698,723,000) and the carrying amount of investment properties held by an associate is HK\$5,582,191,000 (2017: HK\$5,458,685,000).

#### Provision of ECL for trade receivables, loans receivables and finance lease receivables

The Group uses provision matrix to calculate ECL for the trade receivables upon the application of HKFRS 9. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical observed default rates over the expected life of the debtors, the realisation of collateral and guarantee and study of other corporates' default and recovery data from international credit-rating agencies including Moody's and Standard and Poor's, and are adjusted for forward-looking information (for example, the current and forecasted economic growth rates in the PRC, which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort. At the end of the reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, loans receivables and finance lease receivables are assessed for ECL individually as at 31 December 2018.

The provision of ECL is sensitive to changes in estimates. The information about the ECL on the Group's trade receivables, loans receivables and finance lease receivables are disclosed in note 33.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 5. REVENUE AND SEGMENT INFORMATION

### (A) Revenue

#### For the year ended 31 December 2018

(i) *Disaggregation of revenue from contracts with customers*

Revenue primarily represents revenue arising from property management fee income, rental income, interest income from financing services business and other service income, after deducting other sales related taxes. An analysis of the Group's revenue for the period is as follows:

|   | 2018<br>HK\$'000      |
|---|-----------------------|
| Recognised over time under HKFRS 15:                              |                       |
| – Property management fee income                                  | 121,598               |
| – Consultation service income from financing services business    | 31,820                |
| – Other service income  | 70,707                |
| Recognised at a point in time under HKFRS 15:                     |                       |
| – Service income from finance leasing and loan financing services | <u>4,640</u>          |
| Recognised under HKFRS 15   | 228,765               |
| Recognised under other HKFRSs:                                    |                       |
| – Rental income   | 206,884               |
| – Interest income from financing services business                | <u>92,775</u>         |
|   | <u><u>528,424</u></u> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### (A) Revenue (Continued)

#### For the year ended 31 December 2018 (Continued)

##### (i) Disaggregation of revenue from contracts with customers (Continued)

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

For the year ended 31 December 2018

|  | <b>Property<br/>management<br/>HK\$'000</b> | <b>Property<br/>investment<br/>HK\$'000</b> | <b>Financing<br/>services<br/>HK\$'000</b> | <b>Others<br/>HK\$'000</b> |
|--|---|---|--|----------------------------|
| Property management fee income                               | 121,598                                     | -   | -  | -                          |
| Consultation service income from financing services business | -   | -   | 36,460                                     | -                          |
| Others   | -   | -   | -  | 70,707                     |
| <b>Revenue from contracts with customers</b>                 | <b>121,598</b>                              | <b>-</b>                                    | <b>36,460</b>                              | <b>70,707</b>              |
| Rental income  | -   | 206,884                                     | -  | -                          |
| Interest income from financing services business             | -   | -   | 92,775                                     | -                          |
| <b>Total revenue</b>   | <b>121,598</b>                              | <b>206,884</b>                              | <b>129,235</b>                             | <b>70,707</b>              |

##### (ii) Performance obligations for contracts with customers

#### **Property management fee income/consultancy service income from financing services/hotel operation income**

Under the terms of these contracts, the customer of the Group simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs (i.e. services rendered by the Group under property management contracts with the customers with standard contract period up to twelve years, service rendered by the Group under a financial consultancy contracts with the customers with fixed contract period and service rendered by the Group to the customers for the Group's hotel operation) and thus these income are recognised over time.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### (A) Revenue (Continued)

#### For the year ended 31 December 2018 (Continued)

(ii) *Performance obligations for contracts with customers (Continued)*

#### **Service income from finance leasing and loan financing services**

Service income from finance leasing and loan financing services is recognised at a point in time when the results from the services required by the customers of the Group have transferred.

(iii) *Transaction price allocated to the remaining performance obligation for contracts with customers*

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

|  | <b>Property<br/>Management<br/>services<br/>HK\$'000</b> |
|--|--|
| Within one year                                  | 26,787   |
| More than one year but not more than two years   | 17,052   |
| More than two years but not more than five years | 21,534   |
| More than five years                             | 22,420   |
|  | <hr/>  |
|  | 87,793   |
|  | <hr/> <hr/>  |

All consultancy services, hotel operation services and other services delivered by the Group are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

#### For the year ended 31 December 2017

|   | 2017<br>HK\$'000 |
|---|------------------|
| Property management fee income                                  | 118,357          |
| Rental income   | 181,059          |
| Interest income from financing business                         | 25,010           |
| Service income from finance leasing and loan financing services | 13,555           |
| Others  | 60,280           |
|   | <hr/>            |
|   | 398,261          |
|   | <hr/> <hr/>      |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### (B) Segment information

The Group was organised into four operating divisions for management purposes – property development and sale of properties (“property development”), property management, property investment and provision of finance leasing and loan financing services in the PRC (“financing services”). These divisions are the basis on which the Group reports to the executive directors of the Company, the Group’s chief operating decision makers (“CODM”), for performance assessment and resource allocation.

The following is an analysis of the Group’s revenue and results by reportable and operating segment.

#### For the year ended 31 December 2018

|   | Property<br>development<br>HK\$'000 | Property<br>management<br>HK\$'000 | Property<br>investment<br>HK\$'000 | Financing<br>services<br>HK\$'000 | Total for<br>reportable<br>segments<br>HK\$'000 | Others<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|-------------------------------------|------------------------------------|------------------------------------|-----------------------------------|---|--------------------|--------------------------|
| <b>REVENUE</b>  |                                     |                                    |                                    |                                   |   |                    |                          |
| External sales  | -                                   | 121,598                            | 206,884                            | 129,235                           | 457,717   | 70,707             | 528,424                  |
| <b>RESULT</b>   |                                     |                                    |                                    |                                   |   |                    |                          |
| Segment results   | (2,413)                             | 4,500                              | 216,436                            | 38,108                            | 256,631   | 36,218             | 292,849                  |
| Other income  |                                     |                                    |                                    |                                   |   |                    | 103,667                  |
| Unallocated corporate expenses  |                                     |                                    |                                    |                                   |   |                    | (74,829)                 |
| Other gains and losses  |                                     |                                    |                                    |                                   |   |                    | (397)                    |
| Fair value loss on other financial assets at FVTPL and derivative financial instruments |                                     |                                    |                                    |                                   |   |                    | (49,659)                 |
| Fair value loss on loan receivable from associates and amounts due from associates      |                                     |                                    |                                    |                                   |   |                    | (158,475)                |
| Share of results of associates  |                                     |                                    |                                    |                                   |   |                    | (225,200)                |
| Unallocated finance costs   |                                     |                                    |                                    |                                   |   |                    | (25,165)                 |
| Loss before taxation  |                                     |                                    |                                    |                                   |   |                    | (137,209)                |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### (B) Segment information (Continued)

For the year ended 31 December 2017

|  | Property<br>development<br><i>HK\$'000</i> | Property<br>management<br><i>HK\$'000</i> | Property<br>investment<br><i>HK\$'000</i> | Financing<br>services<br><i>HK\$'000</i> | Total for<br>reportable<br>segments<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|--|--|---|---|--|--|---------------------------|---------------------------------|
| <b>REVENUE</b>   |  |   |   |  |  |                           |                                 |
| External sales   | -  | 118,357                                   | 181,059                                   | 38,565                                   | 337,981  | 60,280                    | 398,261                         |
| <b>RESULT</b>  |  |   |   |  |  |                           |                                 |
| Segment results  | (3,442)                                    | 5,484                                     | 204,010                                   | 13,717                                   | 219,769  | 10,990                    | 230,759                         |
| Other income   |  |   |   |  |  |                           | 125,092                         |
| Unallocated corporate<br>expenses  |  |   |   |  |  |                           | (48,311)                        |
| Other gains and losses   |  |   |   |  |  |                           | (81,735)                        |
| Fair value gain on financial<br>assets at FVTPL and<br>derivative financial<br>instruments |  |   |   |  |  |                           | 35,042                          |
| Impairment loss on<br>loan receivable from<br>associates                                   |  |   |   |  |  |                           | (122,835)                       |
| Impairment loss on<br>available-for-sales<br>investments                                   |  |   |   |  |  |                           | (17,021)                        |
| Share of results of<br>associates  |  |   |   |  |  |                           | 95,227                          |
| Unallocated finance costs  |  |   |   |  |  |                           | (3,507)                         |
| Profit before taxation   |  |   |   |  |  |                           | 212,711                         |

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned/loss incurred by each segment without allocation of other income, other gains and losses, central administration costs, impairment loss on loan receivable from associates and available-for-sale investments, directors' salaries, share of results of associates, change in fair value of financial assets at FVTPL and derivative financial instruments, loan receivable from associates and amounts due from associates, certain finance costs and taxation.

No analysis of the Group's assets and liabilities by reportable and operating segments is disclosed as it is not regularly provided to the CODM for review.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### (B) Segment information (Continued)

#### Other segment information

|  | Property<br>development<br>HK\$'000 | Property<br>management<br>HK\$'000 | Property<br>investment<br>HK\$'000 | Financing<br>services<br>HK\$'000 | Others in<br>operating<br>segments<br>HK\$'000 | Unallocated<br>HK\$'000 | Consolidated<br>HK\$'000 |
|--|-------------------------------------|------------------------------------|------------------------------------|-----------------------------------|--|-------------------------|--------------------------|
| For the year ended 31 December 2018  |                                     |                                    |                                    |                                   |  |                         |                          |
| Amounts included in measure of segment results:  |                                     |                                    |                                    |                                   |  |                         |                          |
| Depreciation of property, plant and equipment  | -                                   | 2,735                              | 1,852                              | 67                                | 37,629   | 10,780                  | 53,063                   |
| Increase in fair value of investment properties  | -                                   | -                                  | 81,818                             | -                                 | -  | -                       | 81,818                   |
| Reversal of provision for loss allowance on loans receivables  | -                                   | -                                  | -                                  | 590                               | -  | -                       | 590                      |
| Provision for allowance on finance lease receivables   | -                                   | -                                  | -                                  | 1,181                             | -  | -                       | 1,181                    |
| Provision for allowance on trade receivables   | -                                   | -                                  | -                                  | 117                               | -  | -                       | 117                      |
| Interest income from financing services  | -                                   | -                                  | -                                  | 92,775                            | -  | -                       | 92,775                   |
| Amounts regularly provided to chief operating decision but not included in the measure of segment results: |                                     |                                    |                                    |                                   |  |                         |                          |
| Release of prepaid lease payments  | -                                   | -                                  | -                                  | -                                 | 1,269  | -                       | 1,269                    |
| Fair value loss on loan receivable from associates and amounts due from associates                         | -                                   | -                                  | -                                  | -                                 | -  | 158,475                 | 158,475                  |
| Share of results of associates   | -                                   | -                                  | -                                  | -                                 | -  | 225,200                 | 225,200                  |
| Interest income (other than interest income from financing services)                                       | -                                   | -                                  | -                                  | -                                 | -  | 98,066                  | 98,066                   |
| Fair value loss on financial assets at FVTPL and derivative financial instruments                          | -                                   | -                                  | -                                  | -                                 | -  | 49,659                  | 49,659                   |
| Finance costs  | -                                   | -                                  | -                                  | -                                 | -  | 25,165                  | 25,165                   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### (B) Segment information (Continued)

#### Other segment information (Continued)

|  | Property<br>development<br>HK\$'000 | Property<br>management<br>HK\$'000 | Property<br>investment<br>HK\$'000 | Financing<br>services<br>HK\$'000 | Others in<br>operating<br>segments<br>HK\$'000 | Unallocated<br>HK\$'000 | Consolidated<br>HK\$'000 |
|--|-------------------------------------|------------------------------------|------------------------------------|-----------------------------------|--|-------------------------|--------------------------|
| For the year ended 31 December 2017  |                                     |                                    |                                    |                                   |  |                         |                          |
| Amounts included in measure of segment results:  |                                     |                                    |                                    |                                   |  |                         |                          |
| Depreciation of property, plant and equipment  | -                                   | 2,767                              | 1,987                              | -                                 | 60,569   | 13,058                  | 78,381                   |
| Reversal of impairment loss of property, plant and equipment   | -                                   | -                                  | -                                  | -                                 | 56,558   | -                       | 56,558                   |
| Increase in fair value of investment properties  | -                                   | -                                  | 52,486                             | -                                 | -  | -                       | 52,486                   |
| Interest income from financing services  | -                                   | -                                  | -                                  | 25,010                            | -  | -                       | 25,010                   |
| Amounts regularly provided to chief operating decision but not included in the measure of segment results: |                                     |                                    |                                    |                                   |  |                         |                          |
| Release of prepaid lease payments  | -                                   | -                                  | -                                  | -                                 | 1,242  | -                       | 1,242                    |
| Impairment loss on loan receivable from associates   | -                                   | -                                  | -                                  | -                                 | -  | 122,835                 | 122,835                  |
| Share of results of associates   | -                                   | -                                  | -                                  | -                                 | -  | 95,227                  | 95,227                   |
| Interest income (other than interest income from financing services)                                       | -                                   | -                                  | -                                  | -                                 | -  | 115,868                 | 115,868                  |
| Fair value gain on financial assets at FVTPL and derivative financial instruments                          | -                                   | -                                  | -                                  | -                                 | -  | 35,042                  | 35,042                   |
| Finance costs  | -                                   | -                                  | -                                  | -                                 | -  | 3,507                   | 3,507                    |

All the Group's revenue for both years is generated from the PRC (based on where the properties are located) and substantially all the Group's non-current assets other than financial instruments are also located in the PRC (place of domicile of the group entities that hold such assets). No individual customer of the Group has contributed sales over 10% of the revenue of the Group during each of the year ended 31 December 2018 or 2017.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 6. OTHER INCOME/OTHER EXPENSES

### Other income

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| Dividends from financial assets at FVTPL                  | 246              | 1,939            |
| Interest income from bank deposits                        | 73,883           | 86,301           |
| Interest income on other financial assets at FVTPL        | 22,433           | 8,911            |
| Interest income from financial assets designated at FVTPL | –                | 7,890            |
| Interest income from loans receivables                    | 1,750            | 12,766           |
| Others  | 5,355            | 7,285            |
|   | <b>103,667</b>   | <b>125,092</b>   |

### Other expenses

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| Impairment loss on available-for-sale investments | –                | 17,021           |
| Donations   | –                | 1,156            |
| Others  | –                | 67               |
|   | <b>–</b>         | <b>18,244</b>    |

## 7. OTHER GAINS AND LOSSES

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| Gain on disposal of property, plant and equipment, net                | –                | 57               |
| Net exchange loss (note i)  | (1,627)          | (81,792)         |
| Reversal of provision for (provision for) loss allowance on (note ii) |                  |                  |
| – loans receivables   | 590              | –                |
| – finance lease receivables   | (1,181)          | –                |
| – trade receivables   | (117)            | –                |
| Gain on disposal of a subsidiary (note iii)                           | 2,098            | –                |
| Others  | (160)            | –                |
|   | <b>(397)</b>     | <b>(81,735)</b>  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 7. OTHER GAINS AND LOSSES (Continued)

Notes:

- (i) The net exchange loss mainly arose on the translation of the loan receivable from associates denominated in United States Dollar (“USD”) for year ended 31 December 2017. Upon application of HKFRS 9 on 1 January 2018, loan receivable from associates was reclassified to FVTPL, the net exchange loss/gain arose on translation of this instrument is included to fair value change.
- (ii) Details of impairment assessment for the year ended 31 December 2018 are set out in note 33.
- (iii) During the year ended 31 December 2018, the Group disposed 30% equity interests in Credence Online Group Limited (“Credence Online”) to another existing shareholder of Credence Online at a cash consideration of HK\$6,000,000. As at date of disposal, Credence Online had cash and cash equivalents of HK\$13,389,000 and net asset value of HK\$13,006,000. It resulted in a gain on disposal of HK\$2,098,000. After the disposal, the Group retains 40% equity interests in Credence Online and Credence Online becomes an associate of the Group.

## 8. FINANCE COSTS

|                        | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|------------------------|------------------|------------------|
| Interest on borrowings | <u>25,165</u>    | <u>8,070</u>     |

## 9. (LOSS) PROFIT BEFORE TAXATION

|  | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|--|------------------|------------------|
| (Loss) profit before taxation has been arrived at after charging:  |                  |                  |
| Auditor's remuneration   | 2,650            | 2,300            |
| Staff costs including directors' remuneration  |                  |                  |
| Salaries   | 126,874          | 109,789          |
| Retirement benefits schemes contributions  | 12,421           | 10,482           |
|  | <u>139,295</u>   | <u>120,271</u>   |
| Depreciation of property, plant and equipment  | 53,063           | 78,381           |
| Minimum operating lease rentals in respect of land and buildings   | 10,909           | 6,781            |
| Release of prepaid lease payments  | 1,269            | 1,242            |
| and after crediting:   |                  |                  |
| Rental income from investment properties of HK\$206,884,000 (2017: HK\$181,059,000), net of outgoings that generate rental income of HK\$1,344,000 (2017: HK\$1,328,000) | <u>205,540</u>   | <u>179,731</u>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the 9 (2017: 9) directors of the Company were as follows:

|   | Year ended 31 December 2018 |                      |                         |                  |                  |                     |                                     |                 |                      |               |                   |
|---|-----------------------------|----------------------|-------------------------|------------------|------------------|---------------------|-------------------------------------|-----------------|----------------------|---------------|-------------------|
|   | Executive directors         |                      | Non-executive directors |                  |                  |                     | Independent non-executive directors |                 |                      |               | Total<br>HK\$'000 |
|   | Mr. Xiang<br>Ya Bo          | Mr.<br>Chen Wei      | Mr.<br>Law<br>Sze Lai   | Mr. Ou<br>Yaping | Mr. Ou<br>Jin Yi | Mr. Tang<br>Yui Man | Mr. Xin<br>Luo Lin                  | Mr.<br>Tian Jin | Dr.<br>Xiang<br>Bing |               |                   |
| HK\$'000<br>(note f)                        | HK\$'000                    | HK\$'000<br>(note g) | HK\$'000                | HK\$'000         | HK\$'000         | HK\$'000            | HK\$'000                            | HK\$'000        | HK\$'000             |               |                   |
| Fees (Note a)                               | -                           | -                    | -                       | -                | -                | -                   | 250                                 | 250             | 250                  | 750           |                   |
| Other emoluments                            | -                           | -                    | -                       | -                | -                | -                   | -                                   | -               | -                    | -             |                   |
| Salaries and other benefits (Notes b and c) | 4,187                       | 2,240                | 627                     | 3,597            | 650              | 2,240               | -                                   | -               | -                    | 13,541        |                   |
| Bonuses (Note c)                            | 1,200                       | -                    | -                       | -                | -                | -                   | -                                   | -               | -                    | 1,200         |                   |
| Retirement benefits schemes contributions   | 18                          | 42                   | 12                      | 42               | 18               | 18                  | -                                   | -               | -                    | 150           |                   |
| <b>Total emoluments</b>                     | <b>5,405</b>                | <b>2,282</b>         | <b>639</b>              | <b>3,639</b>     | <b>668</b>       | <b>2,258</b>        | <b>250</b>                          | <b>250</b>      | <b>250</b>           | <b>15,641</b> |                   |

|   | Year ended 31 December 2017 |                 |                         |                  |                  |                      |                                     |                 |                      |               |                   |
|---|-----------------------------|-----------------|-------------------------|------------------|------------------|----------------------|-------------------------------------|-----------------|----------------------|---------------|-------------------|
|   | Executive directors         |                 | Non-executive directors |                  |                  |                      | Independent non-executive directors |                 |                      |               | Total<br>HK\$'000 |
|   | Mr. Xiang<br>Ya Bo          | Mr.<br>Chen Wei | Mr.<br>Law<br>Sze Lai   | Mr. Ou<br>Yaping | Mr. Ou<br>Jin Yi | Mr. Tang<br>Yui Man  | Mr. Xin<br>Luo Lin                  | Mr.<br>Tian Jin | Dr.<br>Xiang<br>Bing |               |                   |
| HK\$'000<br>(note f)                        | HK\$'000                    | HK\$'000        | HK\$'000                | HK\$'000         | HK\$'000         | HK\$'000<br>(note e) | HK\$'000                            | HK\$'000        | HK\$'000             |               |                   |
| Fees (Note a)                               | -                           | -               | -                       | -                | -                | -                    | 250                                 | 250             | 250                  | 750           |                   |
| Other emoluments                            | -                           | -               | -                       | -                | -                | -                    | -                                   | -               | -                    | -             |                   |
| Salaries and other benefits (Notes b and c) | 3,024                       | 1,920           | 1,463                   | 4,023            | 650              | 2,398                | -                                   | -               | -                    | 13,478        |                   |
| Bonuses (Note c)                            | 1,200                       | -               | -                       | -                | -                | 1,200                | -                                   | -               | -                    | 2,400         |                   |
| Retirement benefits schemes contributions   | 18                          | 42              | 29                      | 42               | 18               | 18                   | -                                   | -               | -                    | 167           |                   |
| <b>Total emoluments</b>                     | <b>4,242</b>                | <b>1,962</b>    | <b>1,492</b>            | <b>4,065</b>     | <b>668</b>       | <b>3,616</b>         | <b>250</b>                          | <b>250</b>      | <b>250</b>           | <b>16,795</b> |                   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION (Continued)

Notes:

- a. The director's fee of independent non-executive directors is determined by the board of directors and the remuneration committee of the Company with reference to their duties and responsibilities with the Group, the Group's performance and the prevailing market situation and to be authorised by the shareholders of the Company at the annual general meeting.
- b. The emoluments of the directors are covered by their respective service contracts and/or supplemental agreements or letters of appointment entered into with the Group.
- c. The annual salary increment and year-end discretionary bonus (if any) of executive directors and non-executive directors are based on the review and recommendation from the remuneration committee of the Company with reference to their duties and responsibilities within the Group, the Group's performance and the prevailing market situation.
- d. The executive directors' emoluments (including Mr. Xiang Ya Bo, Mr. Chen Wei and Mr. Tang Yui Man Francis before redesignation to non-executive director) shown above were for their services in connection with the management of the affairs of the Company and the Group. The directors' emoluments of the non-executive directors (including Mr. Ou Yaping, Mr. Law Sze Lai, Mr. Ou Jin Yi Hugo and Mr. Tang Yui Man Francis upon his redesignation to non-executive director) were for their services as directors of the Company and certain subsidiaries undertaking. The independent non-executive directors' emoluments were for their services as directors of the Company.
- e. Mr. Tang Yui Man, Francis was redesignated as a non-executive director on 28 June 2017.
- f. Mr. Xiang Ya Bo is also the chief executive of the Company and his remuneration disclosed above included these services rendered by him as chief executive.
- g. Mr. Law Sze Lai retired as director after the conclusion of the annual general meeting held on 31 May 2018.

Of the five individuals with the highest emoluments in the Group, four (2017: five) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining one (2017: nil) highest paid employee who was neither a director nor chief executive of the Company is follows:

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits               | 1,170            | –                |
| Retirement benefits schemes contributions | 42               | –                |
|   | <u>1,212</u>     | <u>–</u>         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION (Continued)

The number of the highest paid employee who is not the director of the Company and whose remuneration fell within the following band:

|                                | 2018<br>Number of<br>employee | 2017<br>Number of<br>employee |
|--------------------------------|-------------------------------|-------------------------------|
| HK\$1,000,001 to HK\$1,500,000 | <u>1</u>                      | <u>–</u>                      |

During the year, no remuneration was paid by the Group to the five highest paid individuals or directors of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remunerations for the years ended 31 December 2018 and 2017.

## 11. TAXATION

|                             | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|-----------------------------|------------------|------------------|
| The charge comprises:       |                  |                  |
| Current tax                 |                  |                  |
| PRC Enterprise Income Tax   | 59,373           | 49,072           |
| Deferred taxation (note 30) | 21,869           | 17,745           |
| Withholding tax             | 4,723            | –                |
|                             | <u>85,965</u>    | <u>66,817</u>    |

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the amount involved was insignificant for both years.

Taxation for subsidiaries of the Group, which were established and principally operated in the Shenzhen Special Economic Zone, is calculated at the rate of 25% of their assessable profits for the year ended 31 December 2018 (2017: 25%) according to the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. During the year ended 31 December 2018, withholding tax amounted to HK\$4,723,000 was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 11. TAXATION (Continued)

In addition, Land Appreciation Tax (the "LAT") shall be levied at progressive rates ranging from 30% to 60% on the appreciation of land value, represented by the excess of sales proceeds of properties over prescribed direct costs. Prescribed direct costs are defined to include costs of land, development and construction costs, as well as certain costs relating to the property development. According to the State Administration of Taxation's official circulars, LAT shall be payable provisionally upon entering into pre-sales contracts of the properties, followed by final ascertainment of the gain at the completion of the properties development.

The taxation for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of profit or loss as follows:

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| (Loss) profit before taxation   | <b>(137,209)</b> | 212,711          |
| Tax at the applicable tax rate of 25% (2017: 25%)   | <b>(34,302)</b>  | 53,178           |
| Tax effect of expenses not deductible for tax purpose   | <b>26,403</b>    | 764              |
| Tax effect of income not taxable for tax purpose  | <b>(4,601)</b>   | (3,767)          |
| Tax effect of share of results of associates  | <b>56,300</b>    | (23,807)         |
| Tax effect on deferred tax liabilities resulting from<br>withholding tax on undistributed profits of subsidiaries | –                | 4,624            |
| Withholding tax on distributed profits of subsidiaries  | <b>4,723</b>     | –                |
| Tax effect of tax losses not recognised   | <b>8,915</b>     | 39,717           |
| Tax effect of deductible temporary differences not<br>recognised  | <b>39,619</b>    | 30,709           |
| Utilisation of tax losses previously not recognised   | <b>(4,028)</b>   | (20,462)         |
| Utilisation of deductible temporary difference previously not<br>recognised                                       | <b>(7,064)</b>   | (14,139)         |
| Taxation for the year   | <b>85,965</b>    | 66,817           |

Since prior years, Hong Kong Inland Revenue Department ("IRD") queried against a subsidiary of the Group regarding the chargeability of notional interest income received from an associate of the Group in the tax returns for the years of assessment 2005/06 to 2012/13. Up to 31 December 2018, the IRD has issued estimated/additional assessments demanding final tax (the "Assessments") for the years of assessment 2006/2007 to 2012/2013 and the Group has purchased tax reserve certificates of approximately HK\$134,750,000 (2017: HK\$134,750,000) for conditional standover order of objection against the notices of Assessments for the years of assessment 2006/2007 to 2012/2013 and the amount is presented as "other receivables" in the Group's consolidated statement of financial position. In 2016, the IRD issued a letter informing the Group would put up the case for Commissioner's determination. Up to the date of issuance of these consolidated financial statements, the statements of facts to be issued by commissioner are yet to be received. Having considered advices from tax representatives, the directors of the Company are of the view that there were ample grounds to contest the tax positions of the subsidiary of the Group for the relevant years of assessments and hence it is not probable that an outflow of resources will be required to settle this obligation and thus no provision is recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 11. TAXATION (Continued)

Also, since prior years, IRD queried against another subsidiary of the Group regarding the offshore income on the transactions between group entities in the tax returns for the year of assessment 2007/2008. Up to 31 December 2018, the Group has purchased tax reserve certificates of approximately HK\$23,649,000 (2017: HK\$23,649,000) for conditional standover order of objection and the amount is presented as “other receivables” in the Group’s consolidated statement of financial position. In 2016, the IRD issued a letter informing the Group would put up the case for Commissioner’s determination. Up to the date of issuance of these consolidated financial statements, the statements of facts to be issued by commissioner are yet to be received. Having considered advices from tax representatives, the directors of the Company are of the view that there were ample grounds to contest the tax positions of the subsidiary of the Group for the relevant year of assessment and hence it is not probable that an outflow of resources will be required to settle this obligation and thus no provision is recognised.

## 12. DIVIDENDS

No dividends were paid, declared or proposed during both years.

The directors of the Company do not recommend the payment of a dividend in respect of the year ended 31 December 2018 (2017: nil).

## 13. (LOSS) PROFIT PER SHARE

The calculation of the basic and diluted (loss) profit per share attributable to the owners of the Company is based on the following data:

|   | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| (Loss) profit for the year attributable to owners of the Company for the purpose of basic and diluted (loss) profit per share | <u>(267,723)</u>        | 110,088                 |
|   | Number of shares        |                         |
|   | 2018                    | 2017                    |
| Number of shares for the purpose of basic and diluted (loss) profit per share   | <u>3,541,112,832</u>    | 3,541,112,832           |

The computation of diluted (loss) profit per share does not assume the exercise of the Company’s share options because the exercise price of those share options was higher than the average market price of shares for both 2018 and 2017.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 14. PROPERTY, PLANT AND EQUIPMENT

|   | Leasehold<br>land and<br>buildings<br>HK\$'000 | Hotel<br>buildings<br>HK\$'000 | Building<br>improvement<br>in hotel<br>HK\$'000 | Furniture,<br>fixtures<br>and<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|--------------------------------|---|--|-------------------------------|-------------------|
| <b>COST</b>                                 |  |                                |   |  |                               |                   |
| At 1 January 2017                           | 181,589  | 245,805                        | 180,435   | 77,131   | 14,072                        | 699,032           |
| Currency realignment                        | 12,981   | 17,347                         | 12,734  | 3,957  | 798                           | 47,817            |
| Additions                                   | 4,757  | -                              | -   | 4,684  | 294                           | 9,735             |
| Disposals                                   | -  | -                              | -   | (134)  | (691)                         | (825)             |
| At 31 December 2017                         | 199,327  | 263,152                        | 193,169   | 85,638   | 14,473                        | 755,759           |
| Currency realignment                        | (9,284)  | (12,016)                       | (8,821)   | (2,947)  | (480)                         | (33,548)          |
| Additions                                   | 5,510  | -                              | -   | 1,423  | 2,981                         | 9,914             |
| Write-off                                   | -  | -                              | -   | (92)   | (1,128)                       | (1,220)           |
| At 31 December 2018                         | 195,553  | 251,136                        | 184,348   | 84,022   | 15,846                        | 730,905           |
| <b>DEPRECIATION AND IMPAIRMENT</b>          |  |                                |   |  |                               |                   |
| At 1 January 2017                           | 76,764   | 125,838                        | 129,892   | 51,419   | 8,958                         | 392,871           |
| Currency realignment                        | 5,888  | 8,130                          | 9,926   | 2,919  | 501                           | 27,364            |
| Provided for the year                       | 15,040   | 14,708                         | 40,673  | 6,544  | 1,416                         | 78,381            |
| Eliminated on disposals                     | -  | -                              | -   | (121)  | (622)                         | (743)             |
| Reversal of impairment losses<br>recognised | -  | (37,789)                       | (18,769)  | -  | -                             | (56,558)          |
| At 31 December 2017                         | 97,692   | 110,887                        | 161,722   | 60,761   | 10,253                        | 441,315           |
| Currency realignment                        | (5,029)  | (5,427)                        | (8,025)   | (2,201)  | (391)                         | (21,073)          |
| Provided for the year                       | 15,981   | 10,021                         | 18,741  | 6,829  | 1,491                         | 53,063            |
| Eliminated on write-off                     | -  | -                              | -   | (92)   | (1,128)                       | (1,220)           |
| At 31 December 2018                         | 108,644  | 115,481                        | 172,438   | 65,297   | 10,225                        | 472,085           |
| <b>CARRYING VALUES</b>                      |  |                                |   |  |                               |                   |
| At 31 December 2018                         | 86,909   | 135,655                        | 11,910  | 18,725   | 5,621                         | 258,820           |
| At 31 December 2017                         | 101,635  | 152,265                        | 31,447  | 24,877   | 4,220                         | 314,444           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying amount of the Group's leasehold land and buildings and hotel buildings comprises properties situated in the PRC.

The above items of property, plant and equipment are depreciated on a straight-line basis after taking into account their estimated residual values, at the following rates per annum:

|                                   |   |
|-----------------------------------|---|
| Leasehold land and buildings      | Over the shorter of the lease term and 20 years |
| Hotel buildings                   | Over the shorter of the lease term and 20 years |
| Building improvement in hotel     | 20%   |
| Furniture, fixtures and equipment | 20% to 30%                                      |
| Motor vehicles                    | 20% to 30%                                      |

In previous years, the Group recorded an impairment loss on hotel buildings and building improvement in hotel due to the loss-making hotel operation suffered by the Group. As the actual results during the year ended 31 December 2017 are better than previous budget, there is a reversal of impairment loss of HK\$56,558,000. As at 31 December 2017, the aggregate impairment losses on hotel buildings and building improvement in hotel was HK\$88,211,000. During the year ended 31 December 2018, the actual results of the hotel operation in Shenzhen are approximated the management's expectation in previous reporting period.

The Group carried out a review of the recoverable amount of the hotel buildings and the building improvement in hotel. The recoverable amount of the hotel buildings and the building improvement in hotel at 31 December 2018 and 2017 has been arrived at on the basis of a valuation carried out by Messrs. Cushman & Wakefield Limited ("C&W"), independent qualified professional valuers which are not connected with the Group, who are the members of The Hong Kong Institute of Surveyors.

As there has been no recent sales transaction of comparable hotel properties, the recoverable amount of hotel buildings and the building improvement in hotel was assessed based on value in use. It was determined based on the discounted cash flow approach with a discount rate of 10% (2017: 9%), 5-year net cash flow projection assuming occupancy rate ranging from 20% to 35% (2017: 20% to 35%), and net cash flows beyond the 5-year period until end of the land use term using an annual growth rate of 1%. These assumptions are determined based on expectations for the market development in the PRC and is not expected to exceed the average long-term growth rate for the hotel industry. These cash flow projections represent management's best estimates achievable from operating the hotel itself, and the resulting recoverable amount of the hotel buildings and the building improvement in hotel approximates that as determined by C&W assuming the hotel is operated by market participants.

As at 31 December 2017, the recoverable amount of the hotel buildings and the building improvement in hotel is higher than the carrying amounts. Thus, a reversal of impairment loss of HK\$56,558,000 is recognised in profit or loss during the year ended 31 December 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Since the recoverable amount of the hotel buildings and the building improvement in hotel determined based on the above is approximate to the carrying amount as at 31 December 2018, no impairment loss is recognised in profit or loss during the year ended 31 December 2018.

## 15. PREPAID LEASE PAYMENTS

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| The Group's prepaid lease payments comprise: |                         |                         |
| Leasehold land outside Hong Kong             |                         |                         |
| Non-current assets                           | 58,412                  | 62,492                  |
| Current assets                               | 1,227                   | 1,285                   |
|  | <u>59,639</u>           | <u>63,777</u>           |

## 16. INVESTMENT PROPERTIES

|   | <i>HK\$'000</i>  |
|---|------------------|
| FAIR VALUE  |                  |
| At 1 January 2017   | 2,470,127        |
| Exchange realignment  | 176,110          |
| Increase in fair value of investment properties                     | <u>52,486</u>    |
| At 31 December 2017   | 2,698,723        |
| Exchange realignment  | (125,941)        |
| Increase in fair value of investment properties                     | <u>81,818</u>    |
| At 31 December 2018   | <u>2,654,600</u> |
| Unrealised gain on property revaluation included in profit or loss: |                  |
| For the year ended 31 December 2018                                 | <u>81,818</u>    |
| For the year ended 31 December 2017                                 | <u>52,486</u>    |

The fair values of the completed investment properties at 31 December 2018 and 2017 have been arrived at on the basis of a valuation carried out on those dates by C&W.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 16. INVESTMENT PROPERTIES (Continued)

The fair values of office and retail premises were determined based on the income capitalisation approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed based on estimates of future cash flows, supported by the terms of existing lease and the market rentals of the similar properties in the neighbourhood. The capitalisation rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in Shenzhen and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

The fair value of car parks was determined based on direct comparison approach making reference to comparable market observable transactions of similar locations and conditions as available in the relevant market. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The management of the Group works closely with the independent qualified professional valuers to establish and determine the appropriate valuation techniques and inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the management of the Group.

The fair value of investment properties as disclosed below are determined (in particular, the valuation techniques and input used), as well as the fair value hierarchy in which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which significant inputs used in the fair value measurement is observable.

There were no transfers into or out of Level 3 during both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 16. INVESTMENT PROPERTIES (Continued)

### Information about fair value measurements using significant unobservable inputs

The following table shows the valuation techniques used in the determination of fair values for investment properties and unobservable inputs used in the valuation models.

| Description                | Fair value<br>HK\$'000 | Fair value<br>hierarchy | Valuation<br>techniques        | Key inputs  | Range of<br>significant inputs   | Relationship of<br>inputs to fair value  |
|----------------------------|------------------------|-------------------------|--------------------------------|---|--|--|
| As at 31 December 2018     |                        |                         |                                |   |  |  |
| Office and retail premises | 1,955,479              | Level 3                 | Income capitalisation approach | (i) Capitalisation rate taking into account the capitalisation of existing contracts rent, market rent and nature of property | 4.75% - 7.25%<br><br>(a) Office: RMB130 to RMB150 per month per square meter<br><br>(b) Retails: RMB100 to RMB200 per month per square meter | (i) The higher the capitalisation rate, the lower the fair value.<br><br>(ii) The higher the market rent, the higher the fair value. |
| Car parks                  | 699,121                | Level 3                 | Direct comparison approach     | (i) Market price<br><br>(ii) Location adjustment  | RMB80,000 to RMB220,000 per lot<br><br>80% - 100%  | The higher the market price, the higher the fair value<br><br>The higher the adjustment, the higher the fair value                   |
|                            | <u>2,654,600</u>       |                         |                                |   |  |  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 16. INVESTMENT PROPERTIES (Continued)

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

| Description                | Fair value<br>HK\$'000 | Fair value<br>hierarchy | Valuation<br>techniques              | Key inputs   | Range of<br>significant inputs  | Relationship of<br>inputs to fair value  |
|----------------------------|------------------------|-------------------------|--------------------------------------|--|---|--|
| As at 31 December 2017     |                        |                         |                                      |  |   |  |
| Office and retail premises | 1,983,173              | Level 3                 | Income<br>capitalisation<br>approach | (i) Capitalisation rate<br>taking into account<br>the capitalisation of<br>existing contracts rent,<br>market rent and nature<br>of property | 4.75% - 7.25%<br><br>(a) Office: RMB130 to<br>RMB150 per month<br>per square meter<br><br>(b) Retails: RMB 90 to<br>RMB 180 per month<br>per square meter | (i) The higher the<br>capitalisation rate, the<br>lower the fair value.<br><br>(ii) The higher the market<br>rent, the higher the fair<br>value. |
| Car parks                  | 715,550                | Level 3                 | Direct<br>comparison<br>approach     | (i) Market price<br><br>(ii) Location adjustment   | RMB80,000 to<br>RMB220,000 per lot<br><br>80% - 90%   | The higher the market<br>price, the higher the<br>fair value<br><br>The higher the<br>adjustment, the higher<br>the fair value                   |
|                            | 2,698,723              |                         |                                      |  |   |  |

All of the Group's interests in leasehold land held under operating leases in respect of completed properties and buildings to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as completed investment properties.

The investment properties are situated in the PRC.

At 31 December 2018, the Group's investment properties with a carrying value of HK\$528,539,000 (2017: HK\$543,062,000) were pledged to secure general banking facilities granted to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

|  | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|--|------------------|------------------|
| Cost of unlisted interests in associates | 179,446          | 174,243          |
| Share of post-acquisition results        | (63,765)         | 2,872            |
|  | <u>115,681</u>   | <u>177,115</u>   |
| Amounts due from associates (note)       | <u>125,537</u>   | <u>170,744</u>   |

Note: At 31 December 2018 and 2017, amounts due from associates, which represented the current account with RGAP, were unsecured, interest-free and repayable on demand. Due to the delay of the construction plan of the property project of RGAP as disclosed in note 19, the directors of the Company do not expect that the repayment will take place within twelve months from the end of the reporting period, and hence the amount is classified as a non-current asset.

Details of the Group's principal associates as at 31 December 2018 and 2017 are as follows:

| Name of associate   | Place of incorporation/ establishment and form of business structure | Principal place of operation | Percentage of equity interest attributable to the Group |      | Principal activities   |
|---|--|------------------------------|---|------|--|
|   |  |                              | 2018  | 2017 |  |
| <u>Interest directly held by the Group</u>  |  |                              |   |      |  |
| RGAP  | The British Virgin Islands ("BVI") – limited liability company       | Hong Kong                    | 49%   | 49%  | Investment holding   |
| ZhongAn Technologies International Group Limited ("ZhongAn International") (note i) | Hong Kong – limited liability company                                | Hong Kong                    | 49%   | 49%  | Financial technology and insurance technology development and consulting |
| Chongqing ZhongAn Loan Co., Ltd. ("Chongqing ZhongAn") (note ii)                    | PRC – sino-foreign equity joint venture                              | PRC                          | 30%   | 30%  | Money lending in the PRC   |
| MMT E Buy (Cayman) Corporation ("MMT E Buy") (note i)                               | Cayman Islands – limited liability company                           | PRC                          | 30%   | –    | Investment holding   |
| Credence Online (note iii)  | Hong Kong  | Hong Kong                    | 40%   | –    | Investment holding   |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES (Continued)

| Name of associate  | Place of incorporation/<br>establishment<br>and form of<br>business structure | Principal<br>place of<br>operation | Percentage of<br>equity interest<br>attributable<br>to the Group |         | Principal activities  |
|--|---|------------------------------------|--|---------|---|
|  |   |                                    | 2018   | 2017    |   |
| <u>Subsidiaries of RGAP</u>  |   |                                    |  |         |   |
| Shanghai Bund de Rockefeller Group<br>Master Development Co., Ltd.<br>("Shanghai Rockefeller") | PRC – Sino-foreign<br>equity joint venture                                    | PRC                                | 44.57%*  | 44.57%* | Property development<br>and property<br>investment                                  |
| Shanghai Rockbund Property<br>Management Limited   | PRC – limited liability<br>company  | PRC                                | 44.57%*  | 44.57%* | Property management   |
| <u>Subsidiaries of ZhongAn International</u>   |   |                                    |  |         |   |
| ZA Tech Global Limited   | Hong Kong   | Hong Kong                          | 49%*   |         | – Financial technology and<br>insurance technology<br>development and<br>consulting |
| ZhongAn Virtual Finance Limited  | Hong Kong   | Hong Kong                          | 31.85%*  |         | – Virtual finance   |
| <u>Subsidiary of MMT E Buy</u>   |   |                                    |  |         |   |
| 深圳市買買提信息科技有限公司   | PRC – limited liability<br>company  | PRC                                | 30%*   |         | – Online lending platform   |

\* The percentage represented the effective interest in these entities by the Group. RGAP has 90.96% interest in Shanghai Rockefeller and Shanghai Rockbund Property Management Limited. ZhongAn International has 100% interest in ZA Tech Global Limited and 65% interest in ZhongAn Virtual Finance Limited. MMT E Buy has 100% interest in 深圳市買買提信息科技有限公司.

### Notes:

- (i) The Group collaborates with financial technology companies to develop in the financial technology market. ZhongAn International focuses on providing innovative technologies and solutions for the traditional insurance companies and developing integrated insurance and financial solutions for the internet platforms. MMT E Buy focuses on developing financial technologies for online lending platform.
- (ii) The Group contributed to Chongqing ZhongAn to enrich its financial services portfolio for offering small loans in the PRC.
- (iii) During the year ended 31 December 2018, the Group disposed 30% equity interests in Credence Online to another existing shareholder of Credence Online at a cash consideration of HK\$6,000,000. After the disposal, the Group retains 40% equity interests in Credence Online and Credence Online becomes an associate of the Group. Details of the disposal are disclosed in note 7(iii).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES (Continued)

Summarised financial information in respect of each of the Group's material associates is set out below:

### RGAP and its subsidiaries (collectively known as RGAP Group)

The functional currency of RGAP is RMB. For financial reporting purpose, the assets and liabilities of RGAP Group are translated into HK\$ using exchange rates prevailing at the end of the reporting period, while income and expenses items are translated at the average exchange rate for the year.

|  | 2018<br>HK\$'000   | 2017<br>HK\$'000   |
|--|--------------------|--------------------|
| Non-current assets   | 5,721,253          | 5,598,096          |
| Current assets (mainly represented by properties under development for sale) | 1,454,122          | 1,391,007          |
| Current liabilities  | (851,911)          | (770,402)          |
| Long-term borrowings   | (2,271,689)        | (2,283,249)        |
| Deferred tax liabilities   | (546,068)          | (495,901)          |
| Amounts due to shareholders – due after one year                             | (4,929,502)        | (4,572,612)        |
| Net liabilities  | <u>(1,423,795)</u> | <u>(1,133,061)</u> |
| Deficiency in equity attributable to owners of RGAP                          | (1,514,154)        | (1,233,040)        |
| Non-controlling interests of RGAP's subsidiaries                             | 90,359             | 99,979             |
|  | <u>(1,423,795)</u> | <u>(1,133,061)</u> |
| Revenue  | 195,288            | 149,585            |
| Increase (decrease) in fair value of investment properties                   | 76,470             | (142,119)          |
| Administrative expenses and other income                                     | (60,921)           | (63,760)           |
| Net exchange (loss) gain   | (253,848)          | 307,852            |
| Finance cost   | (203,050)          | (54,732)           |
| Tax charge   | (77,536)           | (8,355)            |
| (Loss) profit for the year (note)  | <u>(323,597)</u>   | 188,471            |
| Group's share of (loss) profit of associates for the year                    | <u>(158,563)</u>   | 92,351             |

Note: Based on the agreement between RGAP and non-controlling shareholder of Shanghai Rockefeller, non-controlling shareholder of Shanghai Rockefeller would not share any of the losses incurred by Shanghai Rockefeller. Subsequent profits earned by Shanghai Rockefeller will be used first to recover the losses borne by RGAP, and then be shared by RGAP and non-controlling shareholder of Shanghai Rockefeller based on their profit sharing ratio.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES (Continued)

### RGAP and its subsidiaries (collectively known as RGAP Group) (Continued)

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Net liabilities of RGAP Group attributable to owners of RGAP | (1,514,154)             | (1,233,040)             |
| Proportion of the Group's ownership interest in RGAP Group   | <u>49%</u>              | <u>49%</u>              |
| Carrying amount of the Group's interest in RGAP Group        | <u>–</u>                | <u>–</u>                |

The cumulative loss in excess of cost of interest in RGAP recognised against loan receivable from RGAP is disclosed in note 19.

The main non-current assets of RGAP Group are investment properties in the PRC. The following table shows the valuation techniques and inputs used in the determination of fair values for investment properties of RGAP Group as well as fair value hierarchy in which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which significant inputs used in the fair value measurement is observable.

| Description                              | Fair value<br><i>HK\$'000</i> | Fair value<br>hierarchy | Valuation<br>techniques        | Unobservable inputs   | Relationship of<br>Range of<br>unobservable inputs               | Relationship of<br>unobservable<br>inputs to fair value   |
|--|-------------------------------|-------------------------|--------------------------------|---|--|---|
| As at 31 December 2018                   |                               |                         |                                |   |  |   |
| Investment properties under construction | 2,573,059                     | Level 3                 | Residual approach              | Market unit sales rate with an expected profit margin of 7% | Market unit sale rate: RMB100,000 to RMB158,000 per square meter | The higher the market unit sales rate, the higher the fair value.   |
| Completed office and retail premises     | 3,009,132                     | Level 3                 | Income capitalisation approach | (i) Capitalisation rate<br><br>(ii) Market rent             | 5.5% – 7.0%<br><br>RMB275 – RMB1,200 per month per square meter  | The higher the capitalisation rate, the lower the fair value.<br><br>The higher the market rent, the higher the fair value. |
|  | <u>5,582,191</u>              |                         |                                |   |  |   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES (Continued) RGAP and its subsidiaries (collectively known as RGAP Group) (Continued)

| Description                                     | Fair value<br>HK\$'000 | Fair value<br>hierarchy | Valuation<br>techniques | Unobservable inputs   | Range of<br>unobservable inputs                                  | Relationship of<br>unobservable<br>inputs to fair value           |
|---|------------------------|-------------------------|-------------------------|---|--|---|
| As at 31 December 2017                          |                        |                         |                         |   |  |   |
| Investment properties under construction (note) | 2,416,859              | Level 3                 | Residual approach       | Market unit sales rate with an expected profit margin of 7% | Market unit sale rate: RMB100,000 to RMB140,000 per square meter | The higher the market unit sales rate, the higher the fair value. |
| Completed office and retail premises            | 3,041,826              | Level 3                 | Income                  | capitalisation approach(i)<br>Capitalisation rate           | 5.5% – 7.0%  | The higher the capitalisation rate, the lower the fair value.     |
|   |                        |                         |                         | (ii) Market rent  | RMB275 – RMB1,200 per month per square meter                     | The higher the market rent, the higher the fair value.            |
|   | <u>5,458,685</u>       |                         |                         |   |  |   |

Note: During the year ended 31 December 2017, RGAP Group completed certain construction on investment properties. As at 31 December 2017, fair value of these investment properties of HK\$633,971,000 is then classified as completed office and retail premises.

The valuations of investment properties under construction as at 31 December 2018 and 2017 were arrived at with adoption of the residual approach on the basis that they will be developed and completed in accordance with the latest development proposals and taking into account the construction costs that will be expended to complete the development to reflect the quality of the completed development, as well as developer's profit margin which reflects the risk associated with the development of properties and the return the developer would require so as to complete the properties.

There has been no change from the valuation technique used in prior year. In estimating the fair value of the properties, management of RGAP has taken the highest and best use of the properties into account.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

(Continued)

### Chongqing ZhongAn

During the year ended 31 December 2017, the Group has entered into a joint venture formation agreement with ZhongAn Information and Technology Services Co., Ltd. (“ZhongAn Technology Services”), which is a wholly-owned subsidiary of ZhongAn Online. The Group and ZhongAn Technology Services agreed that the Group contributed RMB90,000,000 to Chongqing ZhongAn in cash for 30% equity interest of Chongqing ZhongAn.

The functional currency of Chongqing ZhongAn is RMB. For financial reporting purpose, the assets and liabilities of Chongqing ZhongAn are translated into HK\$ using exchange rates prevailing at the end of the reporting period, while income and expenses items are translated at the average exchange rate for the year. Details of the financial information of Chongqing ZhongAn are as follows:

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Non-current assets   | 6,100                   | –                       |
| Current assets (mainly represented by cash and cash equivalents) | 384,572                 | 360,007                 |
| Current liabilities  | <u>(42,962)</u>         | <u>(2,154)</u>          |
| Net assets   | <u>347,710</u>          | <u>357,853</u>          |
| Revenue  | 24,236                  | 1,071                   |
| Administrative expenses  | <u>(15,740)</u>         | <u>(2,037)</u>          |
| Profit (loss) for the year                                       | <u>8,496</u>            | <u>(966)</u>            |
| Group's share of profit (loss) of associate for the year         | <u>2,548</u>            | <u>(290)</u>            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES (Continued)

### Chongqing ZhongAn (Continued)

Reconciliation of the above summarised financial information of Chongqing ZhongAn to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Net assets attributable to owners of Chongqing ZhongAn               | <b>347,710</b>          | 357,853                 |
| Proportion of the Group's ownership interest<br>in Chongqing ZhongAn | <b>30%</b>              | 30%                     |
|  | <b>104,312</b>          | 107,356                 |
| Other adjustment (note)  | <b>3,900</b>            | (1,692)                 |
| Carrying amount of the Group's interest in Chongqing<br>ZhongAn      | <b>108,212</b>          | 105,664                 |

Note: The adjustment represented exchange differences arising on translation to presentation currency of Chongqing ZhongAn not shared by the Group due to same functional currency of Chongqing ZhongAn and the Group.

### ZhongAn International

During the year ended 31 December 2017, the Group has entered into another joint venture formation agreement (the "2nd JV Agreement") with ZhongAn Technology Services. The Group and ZhongAn Technology Services agreed that the Group contributed RMB60,000,000 to ZhongAn International in cash for 49% equity interest of ZhongAn International. Pursuant to the 2nd JV Agreement, the Group has the right to appoint one out of the three directors of ZhongAn International. The relevant activities of ZhongAn International are controlled by the board of directors of ZhongAn International and the decisions of the board of directors of ZhongAn International are made through the majority vote in the meetings of board of directors. Accordingly, the Group is able to exercise significant influence over ZhongAn International.

Furthermore, the Group agreed to invest RMB620 million in consideration for redeemable preference shares of ZhongAn International ("Redeemable Preference Shares"). During the year ended 31 December 2018, the Group subscribed Redeemable Preference Shares of RMB526,451,000. As the rights and obligations of the ownership over Redeemable Preference Shares is different from the ownership of ordinary shares of ZhongAn International, the Group's investment in Redeemable Preference Shares is accounted for in accordance with HKFRS 9 and measured at FVTPL. Details of the Redeemable Preference Shares are disclosed in note 24.

Based on the revised shareholders' agreement of ZhongAn International during the year ended 31 December 2018, ZhongAn International has a right to require the Group to subscribe the remaining Redeemable Preference Shares of RMB93,549,000 at any time and such obligation of subscription of Redeemable Preference Shares are considered as derivatives and measured at FVTPL. In the opinion of the directors of the Company, the fair value of subscription of Redeemable Preference Share is insignificant as at 31 December 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES (Continued)

### ZhongAn International (Continued)

Details of the financial information of ZhongAn International are as follows:

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Non-current assets   | 2,948                   | –                       |
| Current assets (mainly represented by cash<br>and cash equivalents)            | 1,164,019               | 134,442                 |
| Current liabilities  | <u>(119,374)</u>        | <u>(1,254)</u>          |
| Net assets   | <u>1,047,593</u>        | <u>133,188</u>          |
| Deficiency in equity attributable to owners of ZhongAn<br>International        | (4,741)                 | 133,188                 |
| Redeemable Preference Shares   | 700,000                 | –                       |
| Non-controlling interests of subsidiaries of ZhongAn<br>International (note i) | <u>352,334</u>          | <u>–</u>                |
|  | <u>1,047,593</u>        | <u>133,188</u>          |
| Revenue  | 13,771                  | 2,862                   |
| Administrative expenses  | (147,476)               | (1,253)                 |
| Net exchange (loss) gain   | <u>(1,890)</u>          | <u>4,851</u>            |
| (Loss) profit for the year   | <u>(135,595)</u>        | <u>6,460</u>            |
| Attributable to:   |                         |                         |
| Owners of ZhongAn International  | (137,929)               | 6,460                   |
| Non-controlling interests of subsidiaries of ZhongAn<br>International          | <u>2,334</u>            | <u>–</u>                |
|  | <u>(135,595)</u>        | <u>6,460</u>            |
| Group's share of (loss) profit of associate for the year                       | <u>(67,585)</u>         | <u>3,166</u>            |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

(Continued)

### ZhongAn International (Continued)

Reconciliation of the above summarised financial information of ZhongAn International to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

|  | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|--|------------------|------------------|
| Net (liabilities) assets attributable to owners of ZhongAn International | (4,741)          | 133,188          |
| Proportion of the Group's ownership interest in ZhongAn International    | 49%              | 49%              |
|  | (2,323)          | 65,262           |
| Other adjustment (note ii)   | 6,189            | 6,189            |
| Carrying amount of the Group's interest in ZhongAn International         | <u>3,866</u>     | <u>71,451</u>    |

Notes:

- (i) A non-controlling shareholder of a non-wholly owned subsidiary of ZhongAn International contributed HK\$350,000,000 during year ended 31 December 2018.
- (ii) Other adjustment represented the Group's contribution to ZhongAn International which is not in proportion to equity interest shared by the Group.

### MMT E Buy

During the year ended 31 December 2018, the Group subscribed a redeemable convertible preference shares in MMT E Buy with a cash consideration of HK\$113,482,000. The Group can convert the preference shares into fully-paid ordinary shares of MMT E Buy and has rights to receive dividend from MMT E Buy. The Group has the right to redeem all or any portion of this redeemable convertible preference shares on or before 31 December 2020 upon occurrence of the breach of obligation or dishonesty by MMT E Buy or the majority shareholder of MMT E Buy at the redemption price of the amount the Group's contribution attributable to redeemable convertible preference shares plus the higher of (i) simple rate of 10% per annum or (ii) per share fair value on the redeemable convertible preference shares. In the event of liquidation, the Group ranks in priority to other classes of shares in MMT E Buy at the price of the amount the Group's contribution attributable to redeemable convertible preference shares plus all accrued or declared but unpaid dividends to such shares. As the rights and obligations of the ownership over this redeemable convertible preference shares is substantially different from the ownership of ordinary shares of MMT E Buy, the Group's investment in this redeemable convertible preference shares is accounted for in accordance with HKFRS 9 and measured at FVTPL in note 24.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

(Continued)

### MMT E Buy (Continued)

Other than the terms mentioned above, the Group has the rights to vote in the meetings of MMT E Buy and the Group has the rights to appoint one out of three directors to MMT E Buy. The relevant activities of MMT E Buy are controlled by the board of directors and the decisions of the board of directors are made through the majority vote in the meetings of board of directors. Accordingly, the Group is able to exercise significant influence over MMT E Buy.

The functional currency of MMT E Buy is RMB. For financial reporting purpose, the assets and liabilities of MMT E Buy are translated into HK\$ using exchange rates prevailing at the end of the reporting period, while income and expenses items are translated at the average exchange rate for the year. Details of the financial information of MMT E Buy are as follows:

|  | 2018<br>HK\$'000                      |
|--|---------------------------------------|
| Non-current assets   | 2,059                                 |
| Current assets (mainly represented by cash and cash equivalents) | 219,853                               |
| Current liabilities  | (68,602)                              |
| Non-current liabilities  | (3,117)                               |
|  | <hr/>                                 |
| Net assets   | 150,193                               |
|  | <hr/> <hr/>                           |
|  | 4.7.2018 to<br>31.12.2018<br>HK\$'000 |
| Revenue  | 151,118                               |
| Selling and administrative expenses and other gain and losses    | (97,925)                              |
| Provision for loss allowance on financial assets                 | (27,468)                              |
| Tax charge   | (3,398)                               |
|  | <hr/>                                 |
| Profit for the period  | 22,327                                |
|  | <hr/> <hr/>                           |
| Group's share of profit of associate for the period (note)       | -                                     |
|  | <hr/> <hr/>                           |

Note: For the purposes of HKAS 28, equity method is not applicable as the rights and obligations of the ownership over the redeemable convertible preference shares is substantially different from the ownership of ordinary shares of MMT E Buy. As the redeemable convertible preference shares, in substance, form part of the Group's net investment in MMT E Buy, the Group would recognise its share of loss of MMT E Buy in excess of the cost of investment against the redeemable convertible preference shares in note 24. During the year ended 31 December 2018, the Group did not recognise any loss from MMT E Buy.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES (Continued)

### Aggregation information of associate that not individually material

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| The Group's share of loss                                 | <u>(1,600)</u>   | –                |
| Carrying amount of the Group's interests in the associate | <u>3,603</u>     | –                |

## 18. EQUITY INSTRUMENTS AT FVTOCI/AVAILABLE-FOR-SALE INVESTMENTS

|  | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|--|------------------|------------------|
| Equity instruments at FVTOCI comprise:   |                  |                  |
| Domestic shares of an entity listed in Hong Kong, at fair value (note i)               | 1,790,137        | –                |
| Unlisted equity securities in Hong Kong, the PRC and overseas, at fair value (note ii) | <u>104,821</u>   | –                |
| Total (note iii)   | <u>1,894,958</u> | –                |
| Available-for-sale investments comprise:   |                  |                  |
| Domestic shares of an entity listed in Hong Kong, at fair value (note i)               | –                | 4,807,679        |
| Unlisted equity securities in Hong Kong and the PRC, at cost (note iv)                 | –                | 118,257          |
| Unlisted fund investments in overseas, at fair value (note iv)                         | –                | 28,750           |
| Club debentures, at fair value   | –                | <u>13,511</u>    |
| Total  | –                | <u>4,968,197</u> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 18. EQUITY INSTRUMENTS AT FVTOCI/AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes:

- (i) The Group held domestic shares of ZhongAn Online. The marketability of domestic shares is different from ZhongAn Online H Shares. Also, pursuant to the Company Law of the PRC, the shares of ZhongAn Online issued prior to its listing shall not be transferred within one year from the listing date (i.e. 28 September 2017). The fair value of investment in Zhong An Online at 31 December 2018 and 31 December 2017 has been arrived at on the basis of a valuation carried out by independent professional valuers not connected with the Group. Details of the fair value estimation are set out in note 33.

During the year ended 31 December 2018, the Group purchased credit insurance over certain of the loans receivables and finance lease receivables (as disclosed in notes 22 and 23) through ZhongAn Online for an insurance premium of HK\$33,862,000 (2017: HK\$12,458,000) as part of the credit management over financing services operation of the Group.

- (ii) During the year ended 31 December 2018, the Group additionally invested in three unlisted equity securities in overseas of HK\$50,441,000.
- (iii) At the date of initial application of HKFRS 9 at 1 January 2018, the Group has made an irrevocable election to designate these investments in equity instruments as at FVTOCI. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.
- (iv) During the year ended 31 December 2017, the Group additionally invested in four entities in the PRC for an aggregate consideration of HK\$85,526,000. The Group also additionally invested in four unlisted fund investments in overseas of HK\$28,750,000 during the year ended 31 December 2017. They are classified as available-for-sale investments.

During the year ended 31 December 2017, the Group disposed of certain unlisted equity securities with carrying amount of HK\$3,835,000, which had been carried at cost less impairment before the disposal, at cash consideration of HK\$3,835,000 to an independent third party.

During the year ended 31 December 2017, an impairment loss of HK\$17,021,000 in aggregate has been recognised to write down the carrying amount of certain unlisted equity securities in the PRC due to their insolvent financial positions. Other than this, the directors of the Company consider no impairment is required in respect of the other unlisted investments as at 31 December 2017.

The above unlisted equity investments are measured at cost less impairment as at 31 December 2017 because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 19. LOAN RECEIVABLE FROM ASSOCIATES

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| Shareholder's loan receivable   |                  |                  |
| – measured at amortised costs   | –                | 1,771,260        |
| – measured at FVTPL   | <b>1,289,063</b> | –                |
| Less: Share of loss and other comprehensive expenses of<br>associates in excess of cost of investment | <b>(721,917)</b> | (563,354)        |
|   | <b>567,146</b>   | 1,207,906        |

The amount represents a shareholder's loan receivable from RGAP for financing a property development and property investment project in Shanghai, which carries a 20% coupon interest rate per annum and forms part of the net investment in RGAP. As the loan receivable was considered as a net investment, the Group has recognised its share of loss of RGAP in excess of the cost of investment against the loan receivable. As at 31 December 2017, the amount is carried at amortised cost based on the estimated future cash flows that are expected to be received by the Group as well as the estimated timing of such receipts. The loan receivable including principal and interest is unsecured and has no fixed repayment terms. The directors of the Company consider that the loan receivable will not be repayable within one year from the end of the reporting period, it is classified as non-current asset accordingly.

As at 31 December 2017, the directors of the Company assessed the recoverable amount of the loan receivable (including the interest receivable from the loan receivable) taking into consideration the estimated future cash flows and timing of such cash flows discounted at its original effective interest rate.

Upon the application of HKFRS 9 as at 1 January 2018, loan receivable from associates as well as the amounts due from associates as stated in note 17 represent an investment in the project of RGAP as detailed in note 2.2(c) and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding and loan receivable from associates as well as the amounts due from associates are both measured at FVTPL. The directors of the Company assessed the fair value of the loan receivable from associates and amounts due from associates by taking into consideration the estimated future cash flows and timing of such cash flows discounted at market interest rate. During the year, RGAP has delayed the construction plan of its property project. As such, the Group has revised its estimates as to when the amounts due from associates and loan receivable from associates can be received. Details of the valuation techniques and key inputs are stated in note 33.

A fair value loss of HK\$158,475,000 is recognised in profit or loss during the year ended 31 December 2018.

An impairment loss of HK\$122,835,000, which represented an adjustment to the loan receivable from associates to reduce its carrying amount to its estimated recoverable amount, is recognised in profit or loss during the year ended 31 December 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 19. LOAN RECEIVABLE FROM ASSOCIATES (Continued)

The directors of the Company have reviewed the carrying amount of the loan receivable from associates of HK\$567,146,000 (2017: HK\$1,207,906,000) and amounts due from associates of HK\$125,537,000 (2017: HK\$170,744,000) and considered that these amounts are fully recoverable.

## 20. STOCK OF PROPERTIES

|                              | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|------------------------------|-------------------------|-------------------------|
| Properties under development | <u>867,991</u>          | <u>887,987</u>          |

As at 31 December 2018, properties under development of HK\$867,991,000 (2017: HK\$887,987,000) represent the carrying amount of the properties expected to be completed more than one year from the end of the reporting period upon the Group's revision on the selling strategy over the properties under development during the year.

## 21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

|   | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Trade receivables from property management and property investment business | 1,675                   | 2,241                   |
| Trade receivables from financing services                                   | <u>28,229</u>           | <u>11,694</u>           |
|   | 29,904                  | 13,935                  |
| Less: allowance for credit loss   | <u>(114)</u>            | –                       |
| Total trade receivables   | 29,790                  | 13,935                  |
| Interest receivables from bank deposits                                     | 23,092                  | 9,393                   |
| Other receivables, deposits and prepayments (note)                          | <u>38,711</u>           | <u>30,266</u>           |
|   | <u>91,593</u>           | <u>53,594</u>           |

Note : As at 31 December 2018, the Group has prepayment of credit insurance over the loans receivables and finance lease receivables (as disclosed in notes 22 and 23) through ZhongAn Online of HK\$303,000 (2017: HK\$5,222,000).

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK\$29,790,000 and HK\$13,935,000 respectively.

The Group allows an average credit period ranging from 0 to 60 days to its customers of property management and property investment business from invoices issuance dates. The following is an aged analysis of trade receivables from property management and property investment services presented based on invoice dates at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

|                | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Aged:          |                         |                         |
| 0 to 60 days   | 1,049                   | 1,960                   |
| 61 to 180 days | 283                     | 263                     |
| Over 181 days  | 343                     | 18                      |
|                | <u>1,675</u>            | <u>2,241</u>            |

The Group allows a credit period of 30 days to its customers of financing business. The following is an aged analysis of trade receivables from financing services presented based on invoice dates at the end of the reporting period.

|               | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|---------------|-------------------------|-------------------------|
| Aged:         |                         |                         |
| 0 to 30 days  | –                       | 11,694                  |
| Over 180 days | 28,115                  | –                       |
|               | <u>28,115</u>           | <u>11,694</u>           |

As at 31 December 2018, trade receivables from property management and property investment services of HK\$1,049,000 (2017: HK\$1,960,000) is neither past due nor impaired. As at 31 December 2017, trade receivables from financing services of HK\$11,694,000 is neither past due nor impaired.

Management of the Group closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

As at 31 December 2017, included in the Group's trade receivables from property management and property investment are debtors with aggregate carrying amount of HK\$281,000 which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Ageing of trade debtors from property management and property investment services which are past due but not impaired:

|               | 2017<br>HK\$'000 |
|---------------|------------------|
| 61 – 180 days | 263              |
| Over 181 days | 18               |
|               | <hr/>            |
|               | 281              |
|               | <hr/> <hr/>      |

As at 31 December 2018, trade receivables from property management and property investment of HK\$626,000 and trade receivables from financing services of HK\$28,115,000 are past due. Out of the past due trade receivables from financing services, HK\$28,115,000 from a debtor has been past due 90 days or more which the directors of the Company do not consider as in default in view of the financial position of the guarantors of this debtor and the settlement history according to the new repayment schedule after re-negotiation from the debtor and the guarantors of this debtor.

As at 31 December 2017, the Group has not provided fully for all receivables from property management and property investment services aged over 60 days based on the historical experience of the Group that receivables are past due but not impaired are generally recoverable.

Upon application of HKFRS 9 on 1 January 2018, the Group applies simplified approach to provide for ECL prescribed by HKFRS 9. To measure the ECL of trade receivables, trade receivables have been grouped based on shared credit risk characteristics. Details of the ECL of trade receivables were disclosed in note 33.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 22. LOANS RECEIVABLES

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| Factoring loans receivables with recourse (note (i))    | 240,534          | 527,395          |
| Purchased loans receivables (note (ii))                 | –                | 357,955          |
| Designated loan receivable through a trust (note (iii)) | 114,155          | 119,617          |
| Other loans receivables (note (iv))                     | 9,132            | 61,684           |
|   | <b>363,821</b>   | 1,066,651        |
| Less: allowance for credit loss                         | <b>(1,941)</b>   | –                |
| Total   | <b>361,880</b>   | 1,066,651        |

For the purpose of financial reporting, the loans receivables analysed as follows:

|             |                |           |
|-------------|----------------|-----------|
| Non-current | 1,491          | 466,091   |
| Current     | 360,389        | 600,560   |
| Total       | <b>361,880</b> | 1,066,651 |

Notes:

- (i) The Group granted factoring loans receivables to independent third parties, which the independent third parties have a portfolio of the receivables from providing loan to the underlying customers. According to the factoring agreements signed between the independent third parties and the Group, the legal title of the receivables of the underlying customers were transferred to the Group and the independent third parties are responsible for the management of the underlying customer receivables, including the collection of receivables from the underlying customers. Also, such receivable is guaranteed by the independent third parties and repayable by instalment based on the terms of the factoring agreement. In the event of default of repayment by the underlying customers, the Group has the right to request independent third parties to repurchase the outstanding receivables of the underlying customers plus accrued interest. The independent third parties are obliged to repay to the Group within 5 days upon their collection of money from the underlying customers, and the Group expects to realise such amounts by collecting the repayments from the independent third parties. The effective interest rates of the factoring loans receivables range mainly from 6.4% to 16.0% (2017: 6.4% to 14.6%) per annum as at 31 December 2018. The management of the Group reviews and assesses for impairment individually and continues to monitor any significant changes.

As at 31 December 2018 and 2017, entire factoring loans receivables are neither past due nor impaired. As at 31 December 2018, factoring loans receivables of HK\$222,388,000 (2017: HK\$438,428,000) are insured and covered by ZhongAn Online.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 22. LOANS RECEIVABLES (Continued)

Notes: (Continued)

- (ii) During the year ended 31 December 2017, the Group purchased a portfolio of unsecured receivables from providing loan to the underlying customers with the principal amount of RMB230,000,000 from an independent third party without recourse at a cash consideration of RMB230,000,000 (equivalent to HK\$275,120,000). The portfolio of the loans receivables is managed by a financial institution. The financial institution acted as the trustee and charged 0.1% per month on the loans receivables as trustee fee. This portfolio of loans receivables carried fixed interest rate ranged from 6.5% to 18.0% per annum and is repayable by instalment within 1 year. Based on the purchase agreement, the independent third party guaranteed the Group interest return of 6.5% per annum. The credit risk of this unsecured loan receivable is insured by ZhongAn Online.

Also, the Group purchased a portfolio of loans receivables to the underlying customers with the principal amount of RMB69,250,000 from an independent third party without recourse at a cash consideration of RMB69,250,000 (equivalent to HK\$82,835,000). This portfolio of loans receivables, is secured by the properties held by underlying customers, carried fixed interest rate of 7.5% per annum and is repayable by instalment within 1 year. The credit risk of loans receivables is insured by ZhongAn Online. Upon the transfer, the insured person is then transferred to the Group.

These purchased loans receivables are settled by the debtors during the year ended 31 December 2018.

- (iii) During the year ended 31 December 2017, the Group entered into a trust loan agreement with a trustee, which is an independent third party. Pursuant to the agreement, the Group entrusted an amount of RMB100,000,000 (equivalent to HK\$119,617,000) to a specific corporate borrower, which is also an independent third party, at an interest rate of 7.0% per annum. The trustee charged 0.1% per month on the loan receivable as trustee fee. This loan receivable is unsecured and will be matured in September 2019.
- (iv) Other loans receivables to independent third parties are unsecured and carried interest rate ranged from 4.0% to 4.4% (2017: 6.0% to 16.0%) per annum.

Deposits of HK\$12,109,000 (2017: HK\$33,543,000) have been received from the independent third parties by the Group to secure certain loans receivables and classified into current liabilities based on the final loan instalment due date stipulated in the loan agreements. The deposits are non-interest bearing and repayable by the Group upon the full settlement of the loans receivables by independent third parties.

Details of ECL on loans receivables for the year ended 31 December 2018 are set out in note 33.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 22. LOANS RECEIVABLES (Continued)

### Transfers of financial assets

The followings were the loans receivables as at 31 December 2018 and 2017 that were transferred to financial institutions by factoring loans receivables on a full recourse basis. As the Group has retained substantially all the risks and rewards of ownership of these loans receivables, it continues to recognise the full carrying amount of the loans receivables and has recognised the cash received on the transfer as secured factoring loan (see note 29). These financial assets are carried at amortised cost in consolidated statement of financial position.

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| Carrying amount of transferred assets     | 221,861          | 362,130          |
| Carrying amount of associated liabilities | <u>(216,062)</u> | <u>(357,716)</u> |

## 23. FINANCE LEASE RECEIVABLES

The Group purchased equipment from independent third parties and leased these equipment to lessees under finance leases. All leases are denominated in RMB. The term of finance leases entered into is one to two years.

|  | Minimum lease payments |                  | Present value of minimum lease payments |                  |
|--|------------------------|------------------|---|------------------|
|  | As at 31 December      |                  | As at 31 December                       |                  |
|  | 2018<br>HK\$'000       | 2017<br>HK\$'000 | 2018<br>HK\$'000                        | 2017<br>HK\$'000 |
| Amount receivable:   |                        |                  |   |                  |
| Not later than one year  | 96,904                 | 117,893          | 84,221                                  | 111,463          |
| More than one year but not exceeding two years                     | 74,526                 | –                | 70,406                                  | –                |
| Less: Unearned finance income                                      | <u>(16,803)</u>        | <u>(6,430)</u>   | <u>N/A</u>                              | <u>N/A</u>       |
| Present value of lease obligations                                 | 154,627                | 111,463          | 154,627                                 | 111,463          |
| Less: Impairment loss allowance                                    | <u>(1,256)</u>         | <u>–</u>         | <u>(1,256)</u>                          |                  |
|  | <u>153,371</u>         | <u>111,463</u>   |   |                  |
| Less: Amounts receivable within one year (shown as current assets) |                        |                  | <u>(84,221)</u>                         | <u>(111,463)</u> |
| Amount receivable after one year                                   |                        |                  | <u>69,150</u>                           | <u>–</u>         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 23. FINANCE LEASE RECEIVABLES (Continued)

The Group's finance lease receivables are denominated in RMB. The effective interest rates of the finance leases as at 31 December 2018 range from 9.2% to 12.8% (2017: 8.7% to 10.6%) per annum.

As at 31 December 2018, finance lease receivables of HK\$153,371,000 (2017: HK\$111,463,000) were guaranteed by related parties of customers and secured by the leased assets and customers' deposits. The title of the leased assets will be transferred to the customers with minimal consideration at the end of the term of leases.

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements that needed to be recorded as at the end of the reporting period.

At 31 December 2017, deposits of HK\$15,431,000 have been received by the Group to secure certain finance lease receivables and classified into current liabilities based on the final lease instalment due date stipulated in the finance lease agreements. The deposits are non-interest bearing. In addition, the finance lease receivables are secured over the leased assets, mainly machinery leased, as at 31 December 2018 and 2017. The Group is not permitted to sell, or repledge the collateral of the finance lease receivables without consent from the lessee in the absence of default by the lessee.

Fair value of collateral are estimated during the credit approval process. These estimates of valuations are made at the inception of finance lease, and generally not updated except when the receivable is individually impaired. When a finance lease receivable is identified as impaired, the corresponding fair value of collateral of that receivable is reassessed by reference to market value such as recent transaction price of the assets.

The finance lease receivables of HK\$9,535,000 (2017: HK\$111,463,000) at the end of the reporting period are neither past due nor impaired.

As at 31 December 2018, the directors of the Company do not consider finance lease receivables of HK\$143,836,000 from a lessee, which has past due finance lease receivables during the year, as in default in view of the financial position of the guarantors of this debtor and the settlement history according to the new repayment schedule after re-negotiation from the debtor and the guarantors of this debtor.

Details of ECL on finance lease receivables for the year ended 31 December 2018 are set out in note 33.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 24. OTHER FINANCIAL ASSETS AT FVTPL

|  | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|--|------------------|------------------|
| Other financial assets at FVTPL  |                  |                  |
| – Equity securities listed in Hong Kong  | 17,696           | 24,418           |
| – Equity securities listed in the PRC  | 66,372           | 39,116           |
| – Investments in Redeemable Preference Shares (note i)                           | 600,000          | –                |
| – Investments in redeemable convertible preference shares of an entity (note ii) | 113,482          | –                |
| – Senior notes listed in Hong Kong   | –                | 24,085           |
| – Senior notes listed overseas   | 13,892           | 37,446           |
| – Coupon notes linked with listed equity securities                              | 57,142           | 131,655          |
| – Unlisted fund investments in the PRC   | 373,289          | –                |
| – Unlisted fund investments overseas   | 62,673           | –                |
|  | <b>1,304,546</b> | <b>256,720</b>   |

Notes:

- (i) As disclosed in note 17, the Group subscribed Redeemable Preference Shares of RMB526,451,000 during the year ended 31 December 2018. ZhongAn International have the right to redeem from the Group all or any portion of Redeemable Preference Shares within 5 years from the date of the issuance of Redeemable Preference Shares (which term shall be renewed automatically every 5 years, subject to any veto by any of the Group or ZhongAn Technology Services) at the principal amount of the Redeemable Preference Shares being redeemed plus simple rate of 5.5% per annum on the amount redeemed calculated from the date of the relevant contribution by the Group on pro-rata basis. The Group did not have any voting rights from Redeemable Preference Shares and did not have any right to receive dividend from ZhongAn International. In the event of liquidation of ZhongAn International, the Group ranks in priority to other classes of shares in ZhongAn International. As the rights and obligations of the ownership over Redeemable Preference Shares is different from the ownership of ordinary shares of ZhongAn International, the Group's investment in Redeemable Preference Shares is accounted for in accordance with HKFRS 9 and measured at FVTPL.
- (ii) During the year ended 31 December 2018, the Group subscribed a redeemable convertible preference shares in MMT E Buy with a cash consideration of HK\$113,482,000. As the rights and obligations of the ownership over this redeemable convertible preference shares are substantially different from the ownership of ordinary shares of the MMT E Buy, the Group's investment in this redeemable convertible preference shares is accounted for in accordance with HKFRS 9 and measured at FVTPL.

Details of the fair value estimation on other financial assets at FVTPL are set out in note 33.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 25. LONG-TERM BANK DEPOSITS, SHORT-TERM BANK DEPOSITS, PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

### Long-term bank deposits

Long-term bank deposits are deposits with banks with a maturity period of more than twelve months at the date of inception. Long-term bank deposits will mature after 12 months from the end of the reporting period and are therefore classified as non-current assets as at 31 December 2018 and 2017. The deposits carry interest at prevailing market rate 3.85% (2017: 3.58%) per annum.

### Short-term bank deposits/pledged bank deposits/cash and cash equivalents

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Cash and cash equivalents consist of:  |                         |                         |
| Bank balances and cash   | 1,001,734               | 952,083                 |
| Deposits in the brokers' house that can be withdrawn anytime with no penalty | 536,979                 | 976,513                 |
| Total  | <u>1,538,713</u>        | <u>1,928,596</u>        |

Short-term bank deposits are deposits with banks with a maturity period of more than three months at the date of inception. Short-term bank deposits will mature within 12 months from the end of the reporting period and are therefore classified as current assets as at 31 December 2018 and 2017. The deposits carry interest at prevailing market rate ranging from 3.58% to 3.90% (2017: 3.22% to 4.5%) per annum.

The Group's pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. As at 31 December 2018, the Group has placed pledged bank deposits of HK\$776,256,000 to secure the long-term bank borrowings granted to the Group. Thus, such pledged bank deposits are classified as non-current assets as at 31 December 2018.

Bank balances and pledged bank deposits carry interest at prevailing market rates which range from 0.00% to 4.18% (2017: 0.00% to 3.47%) per annum at 31 December 2018.

Deposits in the brokers' house are for securities trading purpose. The deposits are interest-free, have no maturity date and there is no restriction on withdrawal of the deposits.

At the end of the reporting period, the Group has the following pledged bank deposits, long-term and short-term bank deposits and cash and cash equivalents denominated in foreign currencies of the relevant group entities:

|      | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|------|-------------------------|-------------------------|
| USD  | 39,559                  | 54,250                  |
| HK\$ | 23,827                  | 4,455                   |
| RMB  | 1,596                   | 36,014                  |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 25. LONG-TERM BANK DEPOSITS, SHORT-TERM BANK DEPOSITS, PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

For long-term and short-term bank deposits, pledged bank deposits and cash and cash equivalents, the Group only transacts with reputable banks and financial institutions with high credit ratings assigned by international credit-rating agencies and consider the risk of default is regard as low and 12-month ECL is insignificant as at 1 January 2018 (date of initial application of HKFRS 9) and 31 December 2018.

## 26. STRUCTURED DEPOSITS

The Group entered into deposit placement with banks in the PRC. The bank guaranteed 100% of the invested principal amount and returns of which are determined by reference to the change in certain exchange rates or interest rates quoted in the market or the performance of financial indicator as specified in the relevant agreements.

Major terms of the structured deposits at the end of the reporting period are as follows:

### At 31 December 2018

| Principal amount | Maturity                    | Annual interest rate | Note |
|------------------|-----------------------------|----------------------|------|
| RMB210,000,000   | January 2019 to August 2019 | from 0.3% to 4.1%    | (i)  |

### At 31 December 2017

| Principal amount | Maturity                   | Annual interest rate | Note |
|------------------|----------------------------|----------------------|------|
| RMB483,000,000   | January 2018 to March 2018 | from 1.1% to 4.6%    | (i)  |

Note:

- (i) The annual interest rate is dependent on whether 3 months or 6 months London Inter Bank Offered Rate for deposits in USD falls within ranges as specified in the relevant deposits placement during the year from inception date to maturity date of the relevant agreements.

At 31 December 2017, the varying coupon payment of the structured deposits is regarded as a non-closely related derivative embedded in the host contract but the fair value of the embedded derivative has not been separately disclosed in the consolidated statement of financial position as the directors of the Company consider that its value is insignificant at initial recognition and the end of the reporting period.

Upon application of HKFRS 9 at 1 January 2018, because the contractual cash flows of structured deposits do not represent solely the payments of principal and interest on the principal amount outstanding, structured deposits of HK\$577,751,000, previously classified as loans and receivables were reclassified and measured at FVTPL. Details of the fair value measurement over the structured deposits as at 31 December 2018 are disclosed in note 33.

At 31 December 2018, the Group has pledged structured deposits of HK\$116,438,000 (2017: nil) to secure the short-term bank borrowings granted to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 27. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Trade payables   | 39,807                  | 47,798                  |
| Other payables for construction work                           | 206,429                 | 205,545                 |
| Deposits and receipts in advance for rental and management fee | 95,515                  | 111,040                 |
| Deposits received from customers of loans receivables          | 12,166                  | 33,543                  |
| Deposits received from customers of finance lease receivables  | –                       | 15,431                  |
| Other tax payables   | 20,945                  | 25,097                  |
| Salaries payable and staff welfare payables                    | 51,592                  | 52,740                  |
| Other payables and accrued charges                             | 74,934                  | 52,788                  |
|  | <u>501,388</u>          | <u>543,982</u>          |

The following is an aged analysis of trade payables, based on the invoice date, at the end of the reporting period:

|                 | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|-----------------|-------------------------|-------------------------|
| Aged:           |                         |                         |
| 0 to 90 days    | 5,808                   | 11,926                  |
| 91 to 180 days  | 1,529                   | 1,783                   |
| 181 to 360 days | 125                     | 3,582                   |
| Over 360 days   | 32,345                  | 30,507                  |
|                 | <u>39,807</u>           | <u>47,798</u>           |

As at year end, the Group has outstanding payables in relation to acquisition and/or construction of property, plant and equipment, investment properties and stock of properties amounting to HK\$51,465,000 (2017: HK\$57,520,000), HK\$16,780,000 (2017: HK\$17,728,000) and HK\$138,184,000 (2017: HK\$130,297,000) respectively which are included in other payables for construction work respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 28. CONTRACT LIABILITIES

|                     | <b>31.12.2018</b><br><i>HK\$'000</i> | 1.1.2018*<br><i>HK\$'000</i> |
|---------------------|--------------------------------------|------------------------------|
| Property management | <b>2,819</b>                         | 3,696                        |
| Others              | <b>8,046</b>                         | 9,754                        |
|                     | <hr/> <b>10,865</b> <hr/>            | <hr/> 13,450 <hr/>           |

\* The amounts in this column are after the adjustments from the application of HKFRS 15.

When the Group receives a deposit before the provision of services, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a one year deposit for certain property management and other services.

For the contract liabilities as at 1 January 2018, the entire balances are recognised as revenue during the year ended 31 December 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 29. BORROWINGS

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Bank borrowings – secured  | 786,771                 | 927                     |
| Bank borrowings – unsecured  | 22,831                  | 59,809                  |
| Other borrowings – secured   | –                       | 358,851                 |
| Other borrowings – unsecured   | 1,140                   | –                       |
| Factoring loans – secured  | 216,062                 | 357,716                 |
|  | <b>1,026,804</b>        | <b>777,303</b>          |
| Carrying amounts repayable based on a schedule repayment term:   |                         |                         |
| Within one year  | 125,143                 | 394,855                 |
| More than one year but not exceeding two years   | 171                     | 24,104                  |
| More than two years but not exceeding five years   | 685,428                 | 538                     |
| More than five years   | –                       | 90                      |
|  | <b>810,742</b>          | <b>419,587</b>          |
| Carrying amounts of factoring loans that contain a repayment on demand clause (shown under current liabilities) but repayable: |                         |                         |
| Within one year  | 216,062                 | 357,716                 |
|  | <b>1,026,804</b>        | <b>777,303</b>          |
| Less: Amount classified as current liabilities   | <b>(341,205)</b>        | <b>(752,572)</b>        |
| Amount due after one year and classified as non-current liabilities  | <b>685,599</b>          | <b>24,731</b>           |

At 31 December 2018, bank borrowings of HK\$101,000,000 (2017: nil) carried at fixed interest rate. At 31 December 2018, bank borrowings of HK\$708,602,000 (2017: HK\$60,736,000) carried interest at benchmark interest rate as stipulated by the People's Bank of China or Hong Kong Interbank Offered Rate plus or minus a certain percentage. The unsecured bank borrowings are also guaranteed by Shenzhen Mangrove West Coast Property Development Co., Ltd. ("SMWC"), one of the subsidiaries of the Group.

The other borrowings of RMB1,000,000 (equivalent to HK\$1,140,000) (2017: RMB300,000,000 (equivalent to HK\$358,851,000)) as at 31 December 2018 represented a unsecured (2017: secured) borrowing from a non-bank financial institution in the PRC carrying interest at 6.5% (2017: 7.90%) per annum and repayable within one year. As at 31 December 2017, the other borrowings are secured by an insurance policy, which is purchased by the Group with ZhongAn Online according to the loan agreement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 29. BORROWINGS (Continued)

The Group's factoring loans as at 31 December 2018 and 2017 represented the loans receivables of the Group discounting to financial institutions of the PRC on a full recourse basis with fixed interest rate. Details of loans receivables are disclosed in note 22.

The interest rates as at the end of the reporting period for the loans range from 3.25% to 6.96% (2017: 4.41% to 7.90%) per annum.

## 30. DEFERRED TAX ASSETS/LIABILITIES

|   | Revaluation<br>on<br>investment<br>properties<br>HK\$'000 | Revaluation<br>of<br>available-<br>for-sales<br>investments<br>HK\$'000 | Revaluation<br>of equity<br>instruments<br>at FVTOCI<br>HK\$'000 | Revaluation<br>of other<br>financial assets<br>at FVTPL<br>HK\$'000 | ECL<br>provision<br>HK\$'000 | Undistributed<br>profits of<br>subsidiaries<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|---|--|---|------------------------------|---|-------------------|
| At 1 January 2017                               | (318,611)   | -   | -  | -   | -                            | (34,434)  | (353,045)         |
| Currency realignment                            | (22,940)  | (39,484)  | -  | -   | -                            | (2,591)   | (65,015)          |
| Charge to profit or loss                        | (13,121)  | -   | -  | -   | -                            | (4,624)   | (17,745)          |
| Charge to other comprehensive income            | -   | (1,138,214)   | -  | -   | -                            | -   | (1,138,214)       |
| At 31 December 2017                             | (354,672)   | (1,177,698)   | -  | -   | -                            | (41,649)  | (1,574,019)       |
| Reclassification upon application of<br>HKFRS 9 | -   | 1,177,698   | (1,177,698)  | -   | -                            | -   | -                 |
| Adjustments (note 2.2)                          | -   | -   | (3,637)  | (1,744)   | 688                          | -   | (4,693)           |
| At 1 January 2018 (restated)                    | (354,672)   | -   | (1,181,335)  | (1,744)   | 688                          | (41,649)  | (1,578,712)       |
| Currency realignment                            | 16,871  | -   | 29,855   | 133   | (37)                         | 1,902   | 48,724            |
| Charge to profit or loss                        | (20,455)  | -   | -  | (1,591)   | 177                          | -   | (21,869)          |
| Charge to other comprehensive income            | -   | -   | 727,625  | -   | -                            | -   | 727,625           |
| At 31 December 2018                             | (358,256)   | -   | (423,855)  | (3,202)   | 828                          | (39,747)  | (824,232)         |

At the end of the reporting period, the Group has estimated unused tax losses of HK\$112,832,000 (2017: HK\$93,284,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams and such losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK\$698,738,000 (2017: HK\$568,518,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 30. DEFERRED TAX ASSETS/LIABILITIES (Continued)

Deferred taxation on undistributed profits of subsidiaries has been recognised taking into account the dividends to be distributed from profits earned by the subsidiaries in the PRC starting from 1 January 2008 under the New Law of the PRC that requires withholding tax with tax rate ranging from 5% to 10% upon the distribution of such profits to the shareholders. Deferred taxation has not been recognised in respect of certain undistributable retained earnings earned by the subsidiaries in the PRC starting from 1 January 2008 amounting to HK\$2,002,984,000 (2017: HK\$2,034,256,000) as the directors of the Company are of the opinion that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 31. SHARE CAPITAL

|   | Number of<br>shares  | Amount<br>HK\$'000 |
|---|----------------------|--------------------|
| Shares of HK\$0.10 each                                     |                      |                    |
| Authorised:   |                      |                    |
| At 1 January 2017, 31 December 2017<br>and 31 December 2018 | <u>6,000,000,000</u> | <u>600,000</u>     |
| Issued and fully paid:                                      |                      |                    |
| At 1 January 2017, 31 December 2017<br>and 31 December 2018 | <u>3,541,112,832</u> | <u>354,111</u>     |

There was no movement in the Company's share capital for both years.

## 32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which include the borrowings disclosed in note 29, and equity attributable to owners of the Company, comprising share capital and reserves including retained earnings.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS

### Categories of financial instruments

|  | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|--|------------------|------------------|
| Financial assets   |                  |                  |
| Financial assets at FVTPL                                  | 2,236,955        | 256,720          |
| Financial assets at amortised cost                         | 3,096,225        | –                |
| Equity instruments at FVTOCI                               | 1,894,958        | –                |
| Loan and receivables (including cash and cash equivalents) | –                | 5,548,212        |
| Available-for-sale financial assets                        | –                | 4,968,197        |
|  | <hr/>            | <hr/>            |
| Financial liabilities                                      |                  |                  |
| Amortised cost   | 1,429,297        | 1,258,881        |
|  | <hr/>            | <hr/>            |

### Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, loan receivable from associates, loans receivables, finance lease receivables, trade and other receivables and deposits, amounts due from associates, financial assets at FVTPL, long-term and short-term bank deposits, structured deposits, pledged bank deposits, cash and cash equivalents, borrowings, trade payables, deposits received and accrued charges. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market risk

##### Currency risk

Currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The management of the Group considers the Group is not exposed to significant foreign currency risk as majority of its transactions are denominated in RMB (the functional currency of the Group's major subsidiaries). There were certain bank balances are denominated in foreign currencies other than the functional currency of the relevant group entities, which expose the Group to foreign currency risk.

Since the exchange rate of HK\$ is pegged with USD, the Group does not expect any significant movements in USD/HK\$ exchange rates. Therefore, the following sensitivity analysis does not include the effect between USD and HK\$. The Group's sensitivity is based on 5% increase and decrease in the functional currency of the respective group entity against relevant foreign currencies and all other variables were held constant. 5% is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### Currency risk (Continued)

At the end of the reporting period, the Group has the following financial assets denominated in foreign currencies of the relevant group entities:

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Cash and cash equivalents denominated in:  |                         |                         |
| USD against RMB as functional currency   | 4,343                   | 423                     |
| USD against HK\$ as functional currency  | 35,216                  | 53,827                  |
| HK\$ against RMB as functional currency  | 23,827                  | 4,455                   |
| RMB against HK\$ as functional currency  | 1,596                   | 36,014                  |
|  | <hr/> <hr/>             | <hr/> <hr/>             |
| Loan receivable from associates denominated in USD<br>against RMB as functional currency | 567,147                 | 1,207,906               |
|  | <hr/> <hr/>             | <hr/> <hr/>             |
| Amounts due from associates denominated in USD against<br>RMB as functional currency     | 125,537                 | 170,744                 |
|  | <hr/> <hr/>             | <hr/> <hr/>             |
| Other receivables denominated in HK\$ against RMB as<br>functional currency              | -                       | 2,405                   |
|  | <hr/> <hr/>             | <hr/> <hr/>             |
| Available-for-sale investments denominated in:   |                         |                         |
| HK\$ against RMB as functional currency  | -                       | 12,500                  |
| USD against HK\$ as functional currency  | -                       | 28,750                  |
|  | <hr/> <hr/>             | <hr/> <hr/>             |
| Financial assets at FVTOCI denominated in:   |                         |                         |
| USD against HK\$ as functional currency  | 58,191                  | -                       |
|  | <hr/> <hr/>             | <hr/> <hr/>             |
| Financial assets at FVTPL denominated in:  |                         |                         |
| USD against HK\$ as functional currency  | 136,527                 | -                       |
| HK\$ against RMB as functional currency  | 5,827                   | -                       |
|  | <hr/> <hr/>             | <hr/> <hr/>             |

If foreign currencies had weakened/strengthened 5% against the respective functional currencies and all other variables were held constant, the Group's loss after taxation (2017: profit after taxation) for the year ended 31 December 2018 would increase/decrease (2017: decrease/increase) by HK\$27,310,000 (2017: HK\$53,792,000). This is mainly attributable to the Group's exposure to foreign currency exchange rate on the bank balances and loan receivable from associates.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year end exposure does not reflect the exposure during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan receivable from associates, loans receivables, investment in senior notes listed overseas, fixed-rate finance lease receivables, other borrowings and factoring loans as at 31 December 2018 and 2017. The Group is also exposed to cash flow interest rate risk in relation to variable-rate long-term and short-term bank deposits, structured deposits, bank balances, pledged bank deposits and bank borrowings as at 31 December 2018 and 2017.

The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management of the Group will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Total interest income from financial assets that are measured at amortised cost is as follows:

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| Interest revenue:   |                  |                  |
| – Financial assets at amortised costs                         | 92,775           | –                |
| – Loans and receivables (including cash and cash equivalents) | –                | 25,010           |
| Other income:   |                  |                  |
| – Financial assets at amortised costs                         | 98,066           | –                |
| – Loans and receivables (including cash and cash equivalents) | –                | 99,067           |
| Total interest income   | <u>190,841</u>   | <u>124,077</u>   |

Total interest expenses from financial liabilities that are measured at amortised cost is as follows:

|  | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|--|------------------|------------------|
| Interest expenses:                         |                  |                  |
| – Financial liabilities at amortised costs | <u>51,695</u>    | <u>10,452</u>    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### *Interest rate risk (Continued)*

##### Sensitivity analysis

The management of the Group considers that the Group's exposure to cash flow interest rate risk on variable-rate bank balances and pledged bank deposits as a result of the change of market interest rate is insignificant due to its short-term maturity and thus no sensitivity analysis is prepared for interest rate risk.

The sensitivity analyses below have been determined based on the exposure to cash flow interest rate risk for financial instruments at the end of the reporting period. For variable-rate financial instruments, the analysis is prepared assuming the stipulated changes took place at the beginning of the financial year with other variables held constant throughout the reporting period. A 50 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss after taxation (2017: profit after taxation) for the year ended 31 December 2018 would increase/decrease by HK\$1,758,000 (2017: increase/decrease by HK\$1,939,000). This is mainly attributable to the Group's exposure to interest rates on variable-rate structured deposits and bank borrowings in the PRC.

##### *Other price risk*

The Group is exposed to equity price risk through its financial assets at FVTPL and equity instruments at FVTOCI (2017: available-for-sale investments, investments held-for-trading and other financial assets at FVTPL).

For equity securities measured at FVTPL (2017: held-for-trading) quoted in the stock exchanges, the management of the Group manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain unquoted equity securities for investees operating in diversified industry sectors for long term strategic purposes which had been designed as FVTOCI (2017: available-for-sale investments measured at cost less impairment). The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent other price risk as the year end exposure does not reflect the exposure during the year.

##### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks.

If the prices of the respective equity instruments and listed senior notes had been 10% higher/lower, loss after taxation (2017: profit after taxation) for the year ended 31 December 2018 decrease/increase by HK\$8,180,000 (2017: increase/decrease HK\$10,443,000) as a result of the changes in fair value of financial assets at FVTPL and investments revaluation reserve for the year ended 31 December 2018 decrease/increase by HK\$142,122,000 (2017: increase/decrease by HK\$360,576,000) as a result of the change in fair value of equity instruments at FVTOCI (2017: available-for-sale investments).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liabilities disclosed in note 37.

#### *Trade receivables arising from contracts with customers, loans receivables and finance lease receivables*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit rating system to assess the potential customer's credit quality and defines credit limits by customer. Credit risk of loans receivables and finance lease receivables are assessed individually. The trade receivables are grouped under a provision matrix into three internal credit rating buckets (namely: low risk, medium risk and high risk) based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables based on provision matrix and loans receivables and finance lease receivables are assessed individually.

Other than the above, the management of the Group also managed the credit risk of loans receivables and finance lease receivables through the purchase of credit insurance through ZhongAn Online.

In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

#### *Other receivables and deposits*

Management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information starting from 1 January 2018. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables and deposits.

#### *Long-term and short-term bank deposits, pledged bank deposits and cash and cash equivalents*

The credit risk on long-term and short-term bank deposits, pledged bank deposits and cash and cash equivalents of the Group is limited because the counterparties are banks and financial institutions with high credit ratings assigned by international credit-rating agencies and no history of default in the past. No loss allowance provision for long-term and short-term bank deposits, pledged bank deposits and cash and cash equivalents was recognised upon application of HKFRS 9. The Group has limited exposure to any single financial institution.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

The Group does not have any significant concentration of credit risk, except from finance lease receivables, 94% (2017: 91%) of which is due from one debtor (2017: 13 entities within the same group) operating in bike-sharing business, and from loans receivables, 61% (2017: 10%) of which is a debtor operating in online trading.

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description  | Trade receivables/<br>finance lease receivables | Other financial assets                |
|------------------------|--|---|---------------------------------------|
| Low risk               | The counterparty has a low risk of default and does not have any past-due amounts  | Lifetime ECL<br>(non credit-impaired)           | 12-month ECL                          |
| Medium risk            | Debtor frequently repays after due dates but usually settle after due date   | Lifetime ECL<br>(non credit-impaired)           | 12-month ECL                          |
| High risk              | There have been significant increase in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL<br>(non credit-impaired)           | Lifetime ECL<br>(non credit-impaired) |
| Loss                   | There is evidence indicating the asset is credit-impaired  | Lifetime ECL<br>(credit-impaired)               | Lifetime ECL<br>(credit-impaired)     |
| Write-off              | There is evidence indicating the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery                | Amount is written-off                           | Amount is written-off                 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets and finance lease receivables which are subject to ECL assessment:

| 2018                                       | Notes | External credit rating (note v) | Internal credit rating  | 12-month or lifetime ECL           | Gross carrying amounts HK\$'000 |
|--|-------|---------------------------------|-------------------------|------------------------------------|---------------------------------|
| <b>Financial assets at amortised costs</b> |       |                                 |                         |                                    |                                 |
| Loans receivables (note i)                 | 22    | N/A                             | Low risk<br>Medium risk | 12-month ECL<br>12-month ECL       | 249,666<br>114,155              |
| Trade receivables                          | 21    | N/A                             | (note ii)               | Lifetime ECL<br>(provision matrix) | 29,904                          |
| Other receivables and deposits             | 21    | N/A                             | (note iii)              | 12-month ECL                       | 43,467                          |
| Long-term bank deposits                    | 25    | ba2                             | N/A                     | 12-month ECL                       | 50,228                          |
| Short-term bank deposits                   | 25    | ba2                             | N/A                     | 12-month ECL                       | 141,919                         |
| Pledged bank deposits                      | 25    | ba2                             | N/A                     | 12-month ECL                       | 776,857                         |
| Cash and cash equivalents                  | 25    | ba2 – Aa3                       | N/A                     | 12-month ECL                       | 1,538,713                       |
| Finance lease receivables (note iv)        | 23    | N/A                             | Low risk<br>Medium risk | Lifetime ECL<br>Lifetime ECL       | 143,836<br>10,791               |
| <b>Other items</b>                         |       |                                 |                         |                                    |                                 |
| Financial guarantee contracts (note vi)    | 37    | N/A                             | Low risk                | 12-month ECL                       | 12,725                          |

Notes:

- (i). As part of the Group's refined credit risk management, the debtors are assessed individually by the management of the Group as at 31 December 2018 by reference to past default experience, current past due exposure of the debtor, the nature and prospect of the debtor's operation. The loss rate ranging from 0.3% to 1.0% is applied to the debtors. As at 31 December 2018, the impairment loss allowance on loans receivables is HK\$1,941,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued) Financial risk management objectives and policies (Continued) Credit risk and impairment assessment (Continued)

Notes: (Continued)

(i). (Continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors, the realisation of collateral and guarantee and study of other corporates' default and recovery data from international credit-rating agencies including Moody's and Standard and Poor's, and are adjusted for forward-looking information (for example, the current and forecasted economic growth rates in the PRC, which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort.

As at 31 December 2018, loans receivables of HK\$222,388,000 are insured and covered by ZhongAn Online.

- (ii). For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. To measure the ECL of trade receivables, trade receivables have been grouped based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor. Management of the Group considers that the ECL for trade receivables is insignificant as the debtors have good settlement history, except for a debtor with the gross carrying amount of HK\$28,229,000 as at 31 December 2018. The directors of the Company do not consider this balance as in default in view of the financial position of the guarantors of this debtor and the settlement history according to the new repayment schedule after re-negotiation from the debtor and the guarantors of this debtor. During the measure of ECL of this debtor, the management of the Group estimated the loss rate of 0.41% over the gross carrying amount of HK\$28,229,000 and ECL of HK\$117,000 is recognised to profit or loss during the year ended 31 December 2018.
- (iii). For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

|                                | <b>Past due</b><br><i>HK\$'000</i> | <b>Not past<br/>due/no fixed<br/>repayment<br/>terms</b><br><i>HK\$'000</i> | <b>Total</b><br><i>HK\$'000</i> |
|--------------------------------|------------------------------------|---|---------------------------------|
| Other receivables and deposits | –                                  | 43,467  | 43,467                          |

Based on the assessment of the management, the ECL on other receivables and deposits is insignificant.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

Notes: (Continued)

- (iv). The Group applies simplified approach to provide for ECL prescribed by HKFRS 9. To measure the ECL of finance lease receivables, the debtors are assessed individually by the management of the Group by reference to past default experience, current past due exposure of the debtor, the nature and prospect of the debtor's operation. The loss rate ranging from 0.8% to 1.5% is applied to the debtors. As at 31 December 2018, the impairment loss allowance on loans receivables is HK\$1,256,000.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors, the realisation of collateral and guarantee and study of other corporates' default and recovery data from international credit-rating agencies including Moody's and Standard and Poor's, and are adjusted for forward-looking information (for example, the current and forecasted economic growth rates in the PRC, which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort.

- (v). External credit rating are from international credit-rating agency Moody's.
- (vi). For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was HK\$12,725,000 as at 31 December 2018. At the end of the reporting period, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12-month ECL. Based on the assessment of the management, the ECL on financial guarantee contracts is insignificant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

The following tables show reconciliation of loss allowances that has been recognised for loans receivables which is measured under 12-month ECL and trade receivables and finance lease receivables which is measured under lifetime ECL:

|   | 12-month ECL                            | Lifetime ECL<br>(not credit-impaired)              |   |
|---|---|--|---|
|   | Loans<br>receivables<br><i>HK\$'000</i> | Finance<br>lease<br>receivables<br><i>HK\$'000</i> | Trade<br>receivables<br><i>HK\$'000</i> |
| <b>As at 31 December 2017 – under HKAS 39</b>                       | –                                       | –  | –                                       |
| Adjustment upon application of HKFRS 9                              | 2,631                                   | 120  | –                                       |
| As at 1 January 2018 – as restated                                  | 2,631                                   | 120  | –                                       |
| Changes due to financial instruments<br>recognised as at 1 January: |   |  |   |
| – Impairment losses reversed  | (1,417)                                 | –  | –                                       |
| New financial assets originated or purchased                        | 827                                     | 1,181  | 117                                     |
| Currency realignment  | (100)                                   | (45)   | (3)                                     |
| At 31 December 2018   | 1,941                                   | 1,256  | 114                                     |

Changes in the loss allowances for loans receivables, finance lease receivables and trade receivables are mainly due to:

|   | 2018  |   |
|---|---|---|
|   | Increase<br>(decrease)<br>in 12-month<br>ECL<br><i>HK\$'000</i> | Increase<br>(decrease)<br>in lifetime ECL<br>(not credit-<br>impaired)<br><i>HK\$'000</i> |
| Repayment from:   |   |   |
| – loans receivables with gross carrying amount<br>of HK\$420,816,000          | (1,417)   | –   |
| Advance of:   |   |   |
| – loans receivables with gross carrying amount<br>of HK\$209,402,000          | 827   | –   |
| – finance lease receivables with gross carrying amount<br>of HK\$143,836,000  | –   | 1,181   |
| Recognition of a trade debtor with gross carrying amount<br>of HK\$28,229,000 | –   | 117   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances (including pledged bank deposits, structured deposits, short-term bank deposits, long-term bank deposits and cash and cash equivalents) which is expected adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings as a source of liquidity.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

|   | Weighted<br>average<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 month to<br>1 year<br>HK\$'000 | 1 to 5 years<br>HK\$'000 | Over 5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31.12.2018<br>HK\$'000 |
|---|---|--|----------------------------------|--------------------------|--------------------------|---|---|
| 2018  |   |  |                                  |                          |                          |   |   |
| Trade payables, deposits received and accrued charges | -   | 156,257  | 246,236                          | -                        | -                        | 402,493   | 402,493   |
| Financial guarantees (Note)                           | -   | 12,725   | -                                | -                        | -                        | 12,725  | -   |
| Borrowings  | 4.48                                      | 230,224  | 141,841                          | 727,762                  | -                        | 1,099,827                                       | 1,026,804                                       |
|   |   | <b>399,206</b>                                   | <b>388,077</b>                   | <b>727,762</b>           | <b>-</b>                 | <b>1,515,045</b>                                | <b>1,429,297</b>                                |

|   | Weighted<br>average<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 month to<br>1 year<br>HK\$'000 | 1 to 5 years<br>HK\$'000 | Over 5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31.12.2017<br>HK\$'000 |
|---|---|--|----------------------------------|--------------------------|--------------------------|---|---|
| 2017  |   |  |                                  |                          |                          |   |   |
| Trade payables, deposits received and accrued charges | -   | 228,235  | 253,343                          | -                        | -                        | 481,578   | 481,578   |
| Financial guarantees (Note)                           | -   | 20,220   | -                                | -                        | -                        | 20,220  | -   |
| Borrowings  | 7.13                                      | 715,178  | 68,127                           | 25,823                   | 92                       | 809,220   | 777,303   |
|   |   | <b>963,633</b>                                   | <b>321,470</b>                   | <b>25,823</b>            | <b>92</b>                | <b>1,311,018</b>                                | <b>1,258,881</b>                                |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

Note: The amounts included above for financial guarantee contracts were the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if the mortgage loans are defaulted by the counterparties. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under that arrangement. However, this estimate is subject to change depending on the probability of the counterparties would default on the relevant loans under the guarantee which is a function of the likelihood that the financial receivables held by banks which are guaranteed suffer credit losses. Details refer to note 37.

Factoring loans with a repayment on demand clause are included in the “on demand or less than 1 month” time band in the above maturity analysis. As at 31 December 2018, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$216,062,000 (2017: HK\$357,716,000). Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the financial institutions will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such factoring loans will be repaid within one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

|                        | Weighted<br>average<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 month to<br>1 year<br>HK\$'000 | 1 to 5 years<br>HK\$'000 | Over 5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount<br>HK\$'000 |
|------------------------|---|--|----------------------------------|--------------------------|--------------------------|---|--------------------------------|
| Borrowings             |   |  |                                  |                          |                          |   |                                |
| As at 31 December 2018 | 6.96                                      | 29,098   | 191,621                          | -                        | -                        | 220,719   | 216,062                        |
| As at 31 December 2017 | 6.81                                      | 38,982   | 331,322                          | -                        | -                        | 370,304   | 357,716                        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets   | Fair value as at       |                        | Fair value hierarchy | Valuation technique(s)   |
|--|------------------------|------------------------|----------------------|--|
|  | 31.12.2018<br>HK\$'000 | 31.12.2017<br>HK\$'000 |                      |  |
| Domestic shares of an entity listed in Hong Kong classified as equity instruments at FVTOCI (2017: classified as available-for-sale investments) | 1,790,137              | 4,807,679              | Level 3              | Average-price Asian Put Option model (note i)  |
| Unlisted equity securities classified as equity instruments at FVTOCI  | 104,821                | N/A                    | Level 2              | Net asset value of the entity (i.e. fair value of the portfolio included in the entity)  |
| Unlisted fund investments classified as financial assets at FVTPL (2017: classified as available-for-sale investments)                           | 435,962                | 28,750                 | Level 2              | Net asset value of fund (i.e. fair value of the portfolio included in the fund)  |
| Investment in listed equity securities held-for-trading  | 84,068                 | 63,534                 | Level 1              | Quoted bid prices in an active market  |
| Redeemable Preference Shares classified as financial assets at FVTPL   | 600,000                | -                      | Level 3              | Discounted cash flow based on the estimated future cash flows that are discounted at rate of 5.5% (note ii)  |
| Redeemable convertible preference shares classified as financial assets at FVTPL   | 113,482                | -                      | Level 3              | Direct comparison approach for business value and Black Scholes Option Pricing model for equity allocation (note iii)  |
| Coupon notes linked with listed equity securities classified as financial assets at FVTPL  | 57,142                 | 131,655                | Level 3              | Quoted prices from financial institutions  |
| Investment in listed senior notes  | 13,892                 | 61,531                 | Level 2              | Recent transaction prices  |
| Structured bank deposits   | 239,726                | N/A                    | Level 3              | Quoted prices from financial institutions  |
| Loan receivable from associates  | 567,146                | N/A                    | Level 3              | Discounted cash flow based on the estimated future cash flows (including the key impact of 2.8% growth rate) that are expected to receive by the Group as well as the estimated timing of such receipts, discounted at a rate that reflects the credit risk of the associates of 18.5% (note iv) |
| Amounts due from associates  | 125,537                | N/A                    | Level 3              |  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Fair value measurements of financial instruments (Continued)

#### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Notes:

- (i) The key inputs of valuation of ZhongAn Online's domestic shares at fair value included (i) share price of ZhongAn Online H Shares as at 31 December 2018 of HK\$25.05 (2017: HK\$69.3) per share; and (ii) discount for lack of marketability. The discount for lack of marketability is determined based on Average-price Asian put option model with unobservable inputs of (i) expected time for conversion of domestic shares to listed shares of 3 years (2017: 3 years), (ii) volatility of comparable entities in the same industry of ZhongAn Online of 30% (2017: 35%); and (iii) expected dividend yield of 0% (2017: 0%). A 1 year increase/decrease in expected time for conversion holding all other variables constant would decrease/increase the fair value on ZhongAn Online's domestic shares by HK\$20,341,000/HK\$40,683,000 (2017: HK\$55,903,000/HK\$167,708,000). A 5% increase/decrease volatility holding all other variables constant would decrease/increase the fair value on ZhongAn Online's domestic shares by HK\$20,341,000/HK\$40,683,000 (2017: HK\$55,903,000/HK\$111,805,000). A 5% increase in expected dividend yield all other variables constant would increase the fair value on ZhongAn Online's domestic shares by HK\$40,683,000 (2017: HK\$111,805,000).
- (ii) A 1% increase/decrease in the discount rate holding all other variables constant would decrease/increase the fair value of Redeemable Preference Shares by HK\$25,658,000/HK\$25,658,000.
- (iii) The key inputs of valuation of redeemable convertible preference shares at fair value included (i) total return of comparable entities in the same industry of MMT E Buy of -70% and (ii) volatility of comparable of 68%. A 5% increase/decrease in total return holding all other variables constant would increase/decrease the fair value of redeemable convertible preference shares by HK\$9,235,000/HK\$10,026,000. A 5% increase/decrease in volatility holding all other variables constant would decrease/increase the fair value of redeemable convertible preference shares by HK\$1,941,000/HK\$1,973,000.
- (iv) A 0.5% increase/decrease in the growth rate holding all other variables constant would increase/decrease the fair value on loan receivable from associates and amounts due from associates by HK\$46,792,000/HK\$54,593,000 and HK\$8,617,000/HK\$9,444,000, respectively. A 0.5% increase/decrease in the discount rate holding all other variables constant would decrease/increase the fair value on loan receivable from associates and amounts due from associates by HK\$49,604,000/HK\$50,088,000 and HK\$8,575,000/HK\$8,664,000, respectively.

There were no transfers between Level 1, 2 and 3 during both years.

#### Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group estimates the fair value of its financial assets and financial liabilities measured at amortised cost using the discounted cash flows analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 33. FINANCIAL INSTRUMENTS (Continued)

### Reconciliation of Level 3 fair value measurements of financial assets and financial liabilities

|  | Other<br>financial<br>assets<br>at FVTPL<br>HK\$'000 | Available-<br>for-sales<br>investments<br>HK\$'000 | Derivative<br>financial<br>instruments-<br>(liabilities)<br>assets<br>HK\$'000 | Loan<br>receivables<br>from<br>associates<br>HK\$'000 | Amount<br>due from<br>associates<br>HK\$'000 | Financial<br>assets<br>at FVTOCI<br>HK\$'000 | Structured<br>bank<br>deposits<br>HK\$'000 | Total<br>HK\$'000 |
|--|--|--|--|---|--|--|--|-------------------|
| At 1 January 2017  | 69,618   | -  | (5,938)  | -   | -  | -  | -  | 63,680            |
| Transfer   | -  | 90,503   | -  | -   | -  | -  | -  | 90,503            |
| Purchase   | 325,377  | -  | -  | -   | -  | -  | -  | 325,377           |
| Disposal   | (266,154)  | -  | -  | -   | -  | -  | -  | (266,154)         |
| Currency realignment   | -  | 164,320  | -  | -   | -  | -  | -  | 164,320           |
| Fair value change to<br>profit or loss   | 2,814  | -  | 5,938  | -   | -  | -  | -  | 8,752             |
| Fair value change to<br>other comprehensive<br>income                                | -  | 4,552,856  | -  | -   | -  | -  | -  | 4,552,856         |
| At 31 December 2017  | 131,655  | 4,807,679  | -  | -   | -  | -  | -  | 4,939,334         |
| Reclassification upon<br>application of HKFRS 9                                      | -  | (4,807,679)  | -  | 1,771,260   | 170,744                                      | 4,807,679                                    | 577,751                                    | 2,519,755         |
| Remeasurement from<br>amortised cost to fair<br>value upon application of<br>HKFRS 9 | -  | -  | -  | (311,939)   | (30,289)                                     | -  | -  | (342,228)         |
| Purchase   | 939,651  | -  | -  | -   | -  | -  | -  | 939,651           |
| Disposal/settlement  | (399,795)  | -  | -  | -   | -  | -  | -  | (399,795)         |
| Placement of structured<br>deposits  | -  | -  | -  | -   | -  | -  | 1,208,973                                  | 1,208,973         |
| Withdrawal of structured<br>deposits   | -  | -  | -  | -   | -  | -  | (1,531,287)                                | (1,531,287)       |
| Advance to associates  | -  | -  | -  | -   | 14,299                                       | -  | -  | 14,299            |
| Currency realignment   | -  | -  | -  | (34,536)  | (6,464)                                      | (123,729)                                    | (15,711)                                   | (180,440)         |
| Fair value change to<br>profit or loss   | (14,369)   | -  | -  | (135,722)   | (22,753)                                     | -  | -  | (172,844)         |
| Fair value change to other<br>comprehensive income                                   | -  | -  | -  | -   | -  | (2,893,813)                                  | -  | (2,893,813)       |
| At 31 December 2018  | 657,142  | -  | -  | 1,289,063   | 125,537                                      | 1,790,137                                    | 239,726                                    | 4,101,605         |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 34. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year.

| Name of related party | Nature of transaction         | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|-----------------------|-------------------------------|------------------|------------------|
| Shanghai Rockefeller  | Project management fee income | <u>26,195</u>    | <u>26,195</u>    |

The key management personnel are the executive directors of the Company. The details of the remuneration paid to them are set out in note 10.

## 35. SHARE OPTIONS

A share option scheme was adopted by shareholders of the Company on 17 May 2012 (the "2012 Share Option Scheme"), under which the board of directors may, at its discretion, offer any employee (including any executive director) of the Company or its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. The 2012 Share Option Scheme has a life of 10 years.

On 15 May 2015, the Group granted 79,000,000 share options to the directors of the Company and 40,000,000 share options to the employees of the Group.

The table below discloses movement of the Company's share options held by the directors and the employees:

|   | Number of<br>share options |
|---|----------------------------|
| At 1 January 2017   | 116,000,000                |
| Lapsed during the year  | <u>(2,000,000)</u>         |
| At 31 December 2017 and 2018  | <u>114,000,000</u>         |
| Exercisable at the end of the reporting period<br>At 31 December 2018 | <u>114,000,000</u>         |
| At 31 December 2017   | <u>114,000,000</u>         |

As at 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the 2012 Share Option Scheme was 114,000,000 (2017: 114,000,000), representing 3.2% (2017: 3.2%) of the shares of the Company in issue at that date.

All share options granted have been vested during prior years. The share option is exercisable from the completion of vesting period to 14 May 2025 with exercise price of HK\$1.37.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 36. RETIREMENT BENEFITS SCHEMES

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 7 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made.

The Group has joined a Mandatory Provident Fund ("MPF") Scheme for all its non-PRC employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

During the year ended 31 December 2018, the Group made contributions to the retirement benefits schemes amounting to HK\$12,421,000 (2017: HK\$10,482,000).

## 37. CONTINGENT LIABILITIES

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Guarantees given to banks for the mortgage loans arranged for the purchasers of the Group's properties | <u>12,725</u>           | <u>20,220</u>           |

No financial liabilities were recorded as, in the opinion of the directors of the Company, the fair values of the financial guarantee contracts at initial recognition and at the end of the reporting period were not significant during both years and it is not probable that the counter parties would default on the relevant loans.

## 38. COMMITMENTS

Saved as disclosed elsewhere in the consolidated financial statements, the Group has following commitment at the end of the reporting period.

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Commitments in respect of properties under development for sale:<br>– contracted for but not provided in the consolidated financial statements | <u>37,184</u>           | <u>50,949</u>           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 39. OPERATING LEASE COMMITMENTS

### The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for future minimum lease receipts in respect of investment properties under non-cancellable operating leases which fall due as follows:

|                                       | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Within one year                       | 160,382                 | 114,146                 |
| In the second to fifth year inclusive | 276,008                 | 149,260                 |
| Over five years                       | 196,270                 | –                       |
|                                       | <u>632,660</u>          | <u>263,406</u>          |

The properties held have committed tenants for periods up to twelve years after the end of the reporting period.

### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

|                                       | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Within one year                       | 9,077                   | 8,116                   |
| In the second to fifth year inclusive | 2,033                   | 10,145                  |
|                                       | <u>11,110</u>           | <u>18,261</u>           |

Operating lease payments represent rental payable by the Group for certain of its office properties.

Leases are negotiated for terms ranging from one to three years.

## 40. PLEDGE OF ASSETS

At 31 December 2018, pledged bank deposits of HK\$776,857,000 (2017: HK\$629,000), structured deposits of HK\$116,438,000 (2017: nil) and investment properties with an aggregate carrying amount of HK\$528,539,000 (2017: HK\$543,062,000) were pledged to banks to secure general banking facilities granted to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

|                               | Dividend<br>payable<br>HK\$'000 | Bank<br>borrowings<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------------|---------------------------------|--------------------------------|-------------------|
| <b>As at 1 January 2017</b>   | –                               | 90,307                         | 90,307            |
| Financing cash flow           | –                               | 649,734                        | 649,734           |
| Interest expenses             | –                               | 8,070                          | 8,070             |
| Currency realignment          | –                               | 29,192                         | 29,192            |
| <b>As at 31 December 2017</b> | –                               | 777,303                        | 777,303           |
| Financing cash flow           | (23,613)                        | 242,677                        | 219,064           |
| Interest expenses             | –                               | 25,165                         | 25,165            |
| Dividend declared             | 23,613                          | –                              | 23,613            |
| Currency realignment          | –                               | (18,341)                       | (18,341)          |
| <b>As at 31 December 2018</b> | –                               | 1,026,804                      | 1,026,804         |

## 42. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2018 and 2017 are as follows:

| Name of subsidiary   | Place of<br>incorporation/<br>establishment/<br>operation | Issued and fully paid<br>up share capital/<br>registered capital | Attributable proportion of<br>nominal value of<br>issued/registered capital<br>held by the Company |      |            |      | Principal activities   |
|--|---|--|--|------|------------|------|--|
|  |   |  | Directly   |      | Indirectly |      |  |
|  |   |  | 2018   | 2017 | 2018       | 2017 |  |
| Cnhooray Internet Technology Co., Ltd. ("Cnhooray Internet")<br>深圳日訊網絡科技股份有限公司 | PRC – Sino-foreign equity joint venture                   | RMB40,000,000  | –  | –    | 80%        | 80%  | Consultancy services in relation to information, multimedia and communication technologies |
| Ease Win International Limited   | BVI/Hong Kong   | USD1   | 100%   | 100% | –          | –    | Investment holding   |
| Firstline Investment Limited   | BVI/Hong Kong   | USD1   | –  | –    | 100%       | 100% | Investment holding   |
| Global Mark Investments Limited  | BVI/Hong Kong   | USD1   | –  | –    | 100%       | 100% | Investment holding   |
| Hu Qin Investments Management Limited  | BVI/Hong Kong   | USD100   | –  | –    | 60%        | 60%  | Investment holding   |
| Knatwood Limited   | BVI/Hong Kong   | USD1   | –  | –    | 100%       | 100% | Investment holding   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 42. LIST OF SUBSIDIARIES (Continued)

| Name of subsidiary   | Place of incorporation/<br>establishment/<br>operation | Issued and fully paid<br>up share capital/<br>registered capital | Attributable proportion of<br>nominal value of<br>issued/registered capital<br>held by the Company |      |            |      | Principal activities |
|--|--|--|--|------|------------|------|----------------------|
|  |  |  | Directly   |      | Indirectly |      |                      |
|  |  |  | 2018   | 2017 | 2018       | 2017 |                      |
| Link Capital Investments Limited   | BVI/Hong Kong  | USD50,000  | -  | -    | 100%       | 100% | Investment holding   |
| Mei Long Investments Limited   | Hong Kong  | HK\$1  | -  | -    | 100%       | 100% | Investment holding   |
| Moreluck Enterprises Limited   | BVI/Hong Kong  | USD1   | 100%   | 100% | -          | -    | Investment holding   |
| Ocean Diamond Limited  | BVI/Hong Kong  | USD50,000  | -  | -    | 100%       | 100% | Investment holding   |
| Ocean Hill Investments Limited*  | BVI/Hong Kong  | USD1   | -  | -    | 100%       | -    | Investment holding   |
| Real Achieve Limited   | BVI/Hong Kong  | USD1   | 100%   | 100% | -          | -    | Investment holding   |
| Shanghai Sinolink Xijiao Property Development Co., Ltd.<br>("Shanghai Sinolink Xijiao")<br>上海百仕達西郊地產發展有限公司 | PRC – Limited liability company                        | RMB190,000,000   | -  | -    | 80%        | 80%  | Property development |
| 上海百仕達蘇河灣地產發展有限公司<br>("百仕達蘇河灣")   | PRC – Limited liability company                        | RMB5,000,000   | -  | -    | 80%        | 80%  | Investment holding   |
| 深圳市百仕達置地有限公司<br>("百仕達置地")  | PRC – Limited liability company                        | RMB10,000,000  | -  | -    | 80%        | 80%  | Investment holding   |
| SMWC<br>深圳紅樹西岸地產發展有限公司   | PRC – Sino-foreign equity joint venture                | RMB200,000,000   | -  | -    | 87%        | 87%  | Property development |
| 深圳百仕達商業管理有限公司<br>("百仕達商業")   | PRC – Limited liability company                        | RMB1,000,000   | -  | -    | 80%        | 80%  | Property management  |
| 深圳百仕達酒店管理有限公司<br>("百仕達酒店管理")   | PRC – Limited liability company                        | RMB1,000,000   | -  | -    | 80%        | 80%  | Property management  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 42. LIST OF SUBSIDIARIES (Continued)

| Name of subsidiary  | Place of incorporation/<br>establishment/<br>operation | Issued and fully paid<br>up share capital/<br>registered capital | Attributable proportion of<br>nominal value of<br>issued/registered capital<br>held by the Company |      |            |      | Principal activities                         |
|---|--|--|--|------|------------|------|--|
|   |  |  | Directly   |      | Indirectly |      |  |
|   |  |  | 2018   | 2017 | 2018       | 2017 |  |
| Shenzhen Sinolink Property Management Co., Ltd.<br>("Sinolink Management")<br>深圳百仕達物業管理有限公司 | PRC – Limited liability company                        | RMB5,000,000   | -  | -    | 80%        | 80%  | Property management                          |
| Sino Support Holdings Limited<br>漢承控股有限公司 <sup>a</sup>                                      | BVI/Hong Kong  | USD3,000   | -  | 100% | -          | -    | Investment holding                           |
| Sinolink Assets Management Limited  | BVI/Hong Kong  | USD2   | 100%   | 100% | -          | -    | Investment holding                           |
| Sinolink LPG Development Limited  | BVI/Hong Kong  | USD1   | -  | -    | 100%       | 100% | Investment holding                           |
| Sinolink Petrochemical Investment Limited   | BVI/Hong Kong  | USD1   | -  | -    | 100%       | 100% | Investment holding                           |
| Sinolink Progressive Limited  | BVI/Hong Kong  | USD47,207  | 100%   | 100% | -          | -    | Investment holding                           |
| Sinolink Properties Agent Limited<br>百仕達物業代理有限公司  | Hong Kong  | HK\$10,000   | -  | -    | 100%       | 100% | Dormant                                      |
| Sinolink Properties Limited<br>("Sinolink Properties")<br>百仕達地產有限公司                         | PRC – Foreign equity joint venture                     | RMB375,000,000   | -  | -    | 80%        | 80%  | Property development and property investment |
| Sinolink Shanghai Investments Ltd.  | BVI/Hong Kong  | USD1   | 100%   | 100% | -          | -    | Investment holding                           |
| Sinolink Worldwide (HK) Company Limited<br>香港百仕達有限公司  | Hong Kong  | HK\$10,000,000   | -  | -    | 100%       | 100% | Investment holding                           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 42. LIST OF SUBSIDIARIES (Continued)

| Name of subsidiary                         | Place of incorporation/<br>establishment/<br>operation | Issued and fully paid<br>up share capital/<br>registered capital | Attributable proportion of<br>nominal value of<br>issued/registered capital<br>held by the Company |      |            |      | Principal activities   |
|--|--|--|--|------|------------|------|--|
|  |  |  | Directly   |      | Indirectly |      |  |
|  |  |  | 2018   | 2017 | 2018       | 2017 |  |
| Smart Orient Investments Limited           | BVI/Hong Kong  | USD1   | 100%   | 100% | -          | -    | Investment holding   |
| Timeway Holdings Limited                   | Hong Kong  | HK\$10,000   | 100%   | 100% | -          | -    | Investment holding   |
| Winner Idea Limited                        | BVI/Hong Kong  | USD1   | 100%   | 100% | -          | -    | Investment holding   |
| ZA Finance (Hong Kong) Limited*            | Hong Kong  | HK\$1,000,000  | 100%   | -    | -          | -    | Insurance broker license   |
| 眾聯融資租賃(上海)有限公司                             | PRC – Limited liability<br>company                     | RMB300,000,000   | 100%   | 100% | -          | -    | Financial leasing  |
| 眾安國際融資租賃(天津)有限公司                           | PRC – Limited liability<br>company                     | RMB1,000,000,000   | 100%   | 100% | -          | -    | Financial leasing  |
| 眾安國際商業保理(天津)有限公司                           | PRC – Limited liability<br>company                     | RMB50,000,000  | 100%   | 100% | -          | -    | Business factoring and<br>other loan financing<br>services                                       |
| 深圳市百仕達信息諮詢有限公司                             | PRC – Limited liability<br>company                     | RMB1,000,000   | 100%   | 100% | -          | -    | Consultancy services in<br>relation to information,<br>investment and<br>corporate<br>management |
| Credence Online Group Limited <sup>#</sup> | Hong Kong  | HK\$20,000,000   | -  | -    | -          | 70%  | Investment holding   |

\* These subsidiaries are newly incorporated/established during the year ended 31 December 2018.

<sup>#</sup> This entity ceased to be a subsidiary of the Group during the year ended 31 December 2018.

<sup>^</sup> Sino Support Holdings Limited was deregistered during the year ended 31 December 2018.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 42. LIST OF SUBSIDIARIES (Continued)

Except for the investment holding companies or dormant companies which have no definite place of operation, all the above subsidiaries operate principally in their respective place of incorporation/establishment.

None of the subsidiaries had issued any debt securities at the end of the year.

The table below shows details of non-wholly-owned subsidiaries of the Group that has material non-controlling interests:

| Name of subsidiaries  | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests |      | Profit (loss) allocated to non-controlling interests |          | Accumulated non-controlling interests |           |
|---|--|---|------|--|----------|---------------------------------------|-----------|
|   |  | 2018  | 2017 | 2018   | 2017     | 2018                                  | 2017      |
|   |  |   |      | HK\$'000   | HK\$'000 | HK\$'000                              | HK\$'000  |
| Sinolink Properties and its subsidiaries (note)                   | Hong Kong/<br>PRC                                      | 20%   | 20%  | 47,013   | 45,764   | 997,777                               | 1,024,263 |
| Cnhooray Internet   | PRC  | 20%   | 20%  | (1,454)  | (246)    | 354,482                               | 812,318   |
| Individual immaterial subsidiaries with non-controlling interests |  |   |      | (1,010)  | (9,712)  | (8,622)                               | (3,712)   |
|   |  |   |      | <b>44,549</b>  | 35,806   | <b>1,343,637</b>                      | 1,832,869 |

Note: The subsidiaries of Sinolink Properties include Shanghai Sinolink Xijiao, 百仕達蘇河灣, 百仕達置地, 百仕達商業, 百仕達酒店管理 and Sinolink Management.

Summarised consolidated financial information for the years ended 31 December 2018 and 2017 in respect of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised consolidated financial information below represents amounts before intragroup eliminations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 42. LIST OF SUBSIDIARIES (Continued) Sinolink Properties and its subsidiaries

|  | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Non-current assets   | 3,826,332               | 3,607,620               |
| Current assets   | 2,653,623               | 3,653,204               |
| Non-current liabilities  | (360,927)               | (421,053)               |
| Current liabilities  | (1,105,252)             | (1,722,650)             |
|  | <u>5,013,776</u>        | <u>5,117,121</u>        |
| Net assets   | <u>5,013,776</u>        | <u>5,117,121</u>        |
| Equity attributable to owners of the Company                       | 4,015,999               | 4,092,858               |
| Non-controlling interests of Sinolink Properties                   | 997,777                 | 1,024,263               |
|  | <u>5,013,776</u>        | <u>5,117,121</u>        |
| Total Equity   | <u>5,013,776</u>        | <u>5,117,121</u>        |
| Revenue  | 385,290                 | 346,160                 |
| Increase in fair value of investment properties                    | 81,818                  | 52,486                  |
| Other income   | 104,344                 | 93,068                  |
| Expenses   | (332,005)               | (240,151)               |
|  | <u>239,447</u>          | <u>251,563</u>          |
| Profit for the year  | 239,447                 | 251,563                 |
| Other comprehensive (expense) income for the year                  | (232,623)               | 316,451                 |
|  | <u>6,824</u>            | <u>568,014</u>          |
| Total comprehensive income for the year                            | <u>6,824</u>            | <u>568,014</u>          |
| Profit for the year attributable to:                               |                         |                         |
| – owners of the Company  | 192,434                 | 205,799                 |
| – non-controlling interests of Sinolink Properties                 | 47,013                  | 45,764                  |
|  | <u>239,447</u>          | <u>251,563</u>          |
| Profit for the year  | <u>239,447</u>          | <u>251,563</u>          |
| Other comprehensive (expense) income for the year attributable to: |                         |                         |
| – owners of the Company  | (181,158)               | 248,042                 |
| – non-controlling interests of Sinolink Properties                 | (51,465)                | 68,409                  |
|  | <u>(232,623)</u>        | <u>316,451</u>          |
| Other comprehensive (expense) income for the year                  | <u>(232,623)</u>        | <u>316,451</u>          |
| Total comprehensive income (expense) for the year attributable to: |                         |                         |
| – owners of the Company  | 11,276                  | 453,841                 |
| – non-controlling interests of Sinolink Properties                 | (4,452)                 | 114,173                 |
|  | <u>6,824</u>            | <u>568,014</u>          |
| Total comprehensive income for the year                            | <u>6,824</u>            | <u>568,014</u>          |
| Dividends paid   | <u>(118,065)</u>        | –                       |

Note: The amount of non-controlling interests included 13% effective interest of SMWC. SMWC is 65% owned by Sinolink Properties and 35% owned by other group entities, which are wholly-owned by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 42. LIST OF SUBSIDIARIES (Continued) Sinolink Properties and its subsidiaries (Continued)

|   | 2018<br>HK\$'000 | 2017<br>HK\$'000 |
|---|------------------|------------------|
| Net cash inflow (outflow) from operating activities | 458,769          | (242,235)        |
| Net cash (outflow) inflow from investing activities | (787,294)        | 1,032,991        |
| Net cash outflow from financing activities          | (61,085)         | (79,155)         |
| Net cash (outflow) inflow                           | <u>(389,610)</u> | <u>711,601</u>   |

### Cnhooray Internet

|  | 2018<br>HK\$'000   | 2017<br>HK\$'000 |
|--|--------------------|------------------|
| Non-current assets   | 1,816,064          | 4,834,202        |
| Current assets   | 500,285            | 523,774          |
| Current liabilities  | (118,754)          | (118,688)        |
| Non-current liabilities  | (425,185)          | (1,177,698)      |
| Net assets   | <u>1,772,410</u>   | <u>4,061,590</u> |
| Equity attributable to owners of the Company                       | 1,417,928          | 3,249,272        |
| Non-controlling interests of Cnhooray Internet                     | 354,482            | 812,318          |
| Total Equity   | <u>1,772,410</u>   | <u>4,061,590</u> |
| Other income   | 3,121              | 4,142            |
| Expenses   | (10,389)           | (5,373)          |
| Loss for the year  | (7,268)            | (1,231)          |
| Other comprehensive (expense) income for the year                  | (2,290,158)        | 3,567,410        |
| Total comprehensive (expense) income for the year                  | <u>(2,297,426)</u> | <u>3,566,179</u> |
| Loss for the year attributable to:                                 |                    |                  |
| – the owners of Company  | (5,814)            | (985)            |
| – non-controlling interests of Cnhooray Internet                   | (1,454)            | (246)            |
| Loss for the year  | <u>(7,268)</u>     | <u>(1,231)</u>   |
| Other comprehensive (expense) income for the year attributable to: |                    |                  |
| – owners of Company  | (1,832,127)        | 2,853,928        |
| – non-controlling interests of Cnhooray Internet                   | (458,031)          | 713,482          |
| Other comprehensive (expense) income for the year                  | <u>(2,290,158)</u> | <u>3,567,410</u> |
| Total comprehensive (expense) income for the year attributable to: |                    |                  |
| – owners of Company  | (1,837,941)        | 2,852,943        |
| – non-controlling interests of Cnhooray Internet                   | (459,485)          | 713,236          |
| Other comprehensive (expense) income for the year                  | <u>(2,297,426)</u> | <u>3,566,179</u> |
| Dividends paid   | –                  | –                |
| Net cash inflow from operating activities                          | 27,131             | 16,108           |
| Net cash inflow from investing activities                          | 3,075              | 1,190            |
| Net cash inflow (outflow) from financing activities                | 2,367              | (11,669)         |
| Net cash inflow  | <u>32,573</u>      | <u>5,629</u>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|   | 2018<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Non-current assets                          |                         |                         |
| Plant and equipment                         | 81                      | 25                      |
| Unlisted investments in subsidiaries        | 615,484                 | 614,507                 |
| Amount due from subsidiaries                | 4,184,680               | 4,037,022               |
| Available-for-sale investments              | –                       | 12,500                  |
| Interests in associates                     | 69,124                  | 69,124                  |
|   | <u>4,869,369</u>        | <u>4,733,178</u>        |
| Current assets                              |                         |                         |
| Other receivables, deposits and prepayments | 15,688                  | 2,907                   |
| Bank balances and cash                      | 27,805                  | 8,293                   |
| Financial assets at FVTPL                   | 605,827                 | 6,849                   |
|   | <u>649,320</u>          | <u>18,049</u>           |
| Current liability                           |                         |                         |
| Other payables and accrued charges          | 932                     | 1,281                   |
| Net current assets                          | <u>648,388</u>          | <u>16,768</u>           |
| Total assets less current liabilities       | <u>5,517,757</u>        | <u>4,749,946</u>        |
| Non-current liability                       |                         |                         |
| Amounts due to subsidiaries                 | 2,658,325               | 1,816,796               |
| Net assets                                  | <u>2,859,432</u>        | <u>2,933,150</u>        |
| Capital and reserves                        |                         |                         |
| Share capital                               | 354,111                 | 354,111                 |
| Reserves (Note)                             | 2,505,321               | 2,579,039               |
|   | <u>2,859,432</u>        | <u>2,933,150</u>        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

### Reserves

|  | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Share<br>option<br>reserve<br><i>HK\$'000</i> | Retained<br>earnings<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|-------------------------------------|---|---|---|--------------------------|
| At 1 January 2017  | 1,824,979                           | 572,174                                   | 80,594  | 135,748                                 | 2,613,495                |
| Loss and total comprehensive expense<br>for the year       | -                                   | -   | -   | (34,456)                                | (34,456)                 |
| Share option lapsed  | -                                   | -   | (1,294)                                       | 1,294                                   | -                        |
| At 31 December 2017  | 1,824,979                           | 572,174                                   | 79,300  | 102,586                                 | 2,579,039                |
| Adjustments arising from initial<br>application of HKFRS 9 | -                                   | -   | -   | (40,370)                                | (40,370)                 |
| At 1 January 2018 (restated)                               | 1,824,979                           | 572,174                                   | 79,300  | 62,216                                  | 2,538,669                |
| Loss and total comprehensive expense<br>for the year       | -                                   | -   | -   | (33,348)                                | (33,348)                 |
| At 31 December 2018  | 1,824,979                           | 572,174                                   | 79,300  | 28,868                                  | 2,505,321                |

# PARTICULARS OF MAJOR PROPERTIES

AT 31 DECEMBER 2018

## Property held for development/sale

| Description   | Type of use | Effective GFA (M <sup>2</sup> ) | % held | Stage of completion      | Anticipated completion |
|---|-------------|---------------------------------|--------|--------------------------|------------------------|
| 1. Land lot No. 240 of Xinjingzhen, Changning District Shanghai | Residential | 13,600                          | 80%    | Construction in progress | 2020                   |

## Properties held for investment

| Properties   | Type of use              | GFA (M <sup>2</sup> ) | Effective % held |
|--|--------------------------|-----------------------|------------------|
| 1. 518 car parks at Residence Club House Phase 1, Sinolink Garden Taining Road Luohu District Shenzhen   | Car parks                | 16,500                | 80%              |
| 2. Unit Nos. 101,102 ad 103 Ancillary Building West District, Phase 4 Sinolink Garden Taining Road Luohu District Shenzhen                           | Commercial               | 20,232                | 80%              |
| 3. 4 lorry parking spaces and 1,070 car parks Phase 4, Sinolink Garden Taining Road Luohu District Shenzhen  | Car parks                | 44,000                | 80%              |
| 4. 1,700 car parks at Residence Club House Mangrove West Coast Land lot No. T207-0026 Bin Hai Da Dao Bay Sha He Dong Road, Nanshan District Shenzhen | Car parks                | 84,834                | 80%              |
| 5. Levels 1 to 3 of commercial podium The Vi City, Phase 5, Sinolink Garden Taining Road Luohu District Shenzhen                                     | Commercial               | 39,434                | 80%              |
| 6. 1,942 car parks Phase 5, Sinolink Garden Taining Road Luohu District Shenzhen   | Car parks                | 72,381                | 80%              |
| 7. Levels 24 to 36 of office portion and 115 car parks Sinolink Tower Taining Road Luohu District  | Commercial and car parks | 20,075                | 80%              |

# FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2018

|                               | For the year ended 31 December |                  |                  |                  |                  |
|-------------------------------|--------------------------------|------------------|------------------|------------------|------------------|
|                               | 2014<br>HK\$'000               | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000 |
| <b>RESULTS</b>                |                                |                  |                  |                  |                  |
| Revenue                       | 301,373                        | 335,956          | 331,867          | 398,261          | <b>528,424</b>   |
| Profit (loss) before taxation | 121,961                        | (343,018)        | (142,872)        | 212,711          | <b>(137,209)</b> |
| Taxation                      | (60,360)                       | (48,241)         | (72,963)         | (66,817)         | <b>(85,965)</b>  |
| Profit (loss) for the year    | 61,601                         | (391,259)        | (215,835)        | 145,894          | <b>(223,174)</b> |
| Attributable to:              |                                |                  |                  |                  |                  |
| Owners of the Company         | 27,745                         | (409,456)        | (245,527)        | 110,088          | <b>(267,723)</b> |
| Non-controlling interests     | 33,856                         | 18,197           | 29,692           | 35,806           | <b>44,549</b>    |
|                               | 61,601                         | (391,259)        | (215,835)        | 145,894          | <b>(223,174)</b> |
|                               | <i>HK cents</i>                | <i>HK cents</i>  | <i>HK cents</i>  | <i>HK cents</i>  | <i>HK cents</i>  |
| Profit (loss) per share       |                                |                  |                  |                  |                  |
| Basic                         | 0.78                           | (11.56)          | (6.93)           | 3.11             | <b>(7.56)</b>    |
| Diluted                       | N/A                            | (11.56)          | (6.93)           | 3.11             | <b>(7.56)</b>    |

|   | As at 31 December |                  |                  |                  |                    |
|---|-------------------|------------------|------------------|------------------|--------------------|
|   | 2014<br>HK\$'000  | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000   |
| <b>ASSETS AND LIABILITIES</b>                   |                   |                  |                  |                  |                    |
| Total assets                                    | 10,632,904        | 9,665,103        | 8,952,010        | 15,088,273       | <b>11,362,432</b>  |
| Total liabilities                               | (1,974,411)       | (1,729,732)      | (1,642,187)      | (3,631,356)      | <b>(3,074,784)</b> |
|   | 8,658,493         | 7,935,371        | 7,309,823        | 11,456,917       | <b>8,287,648</b>   |
| Equity attributable to owners of<br>the Company | 7,558,719         | 6,887,921        | 6,300,651        | 9,624,048        | <b>6,944,011</b>   |
| Non-controlling interests                       | 1,099,774         | 1,047,450        | 1,009,172        | 1,832,869        | <b>1,343,637</b>   |
|   | 8,658,493         | 7,935,371        | 7,309,823        | 11,456,917       | <b>8,287,648</b>   |