九號運通有限公司

Nine Express Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 00009

2018
Annual Report

Contents

Corporate Information

Board of Directors

Executive Directors:
Ms. Qian Ling Ling *(Chairman)*
Mr. Zhang Li *(Chief Executive Officer)*
Mr. Xiang Junjie

Independent Non-executive Directors:
Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny

Company Secretary

Ms. Tsang Wing Man

Authorised Representatives

Ms. Qian Ling Ling
Mr. Zhang Li

Auditor

Grant Thornton Hong Kong Limited
Level 12, 28 Hennessy Road
Wanchai
Hong Kong

Principal Bankers

Industrial and Commercial Bank of China Limited
Industrial and Commercial Bank of China (Asia) Limited
Dongguan Rural Commercial Bank Company Limited
Bank of China (Hong Kong) Limited

Audit Committee

Mr. Tang Ping Sum *(Chairman)*
Mr. Tsui Pui Hung
Mr. Chiu Sin Nang, Kenny

Remuneration Committee

Mr. Chiu Sin Nang, Kenny *(Chairman)*
Mr. Tang Ping Sum
Mr. Tsui Pui Hung

Nomination Committee

Mr. Tsui Pui Hung *(Chairman)*
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny

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 and Transfer Office

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

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Room 4101, 41/F
Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Company Website

www.nine-express.com.hk

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors" and each a "Director") of Nine Express Limited ("Nine Express" or the "Company"), I am pleased to present you with the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 ("FY2018" or the "Year under Review").

While 2018 presented us with various challenges, it was also a year where we pulled our forces together to start afresh. To adapt to the ever-changing market environment, the Group had been actively exploring business across sectors and achieving diversified development in recent years. However, after due and prudent consideration, the Group has decided to focus first on expanding the high-potential property and hotel development business, with the aim of getting the Group back on the growth track.

Last year, despite the Mainland Government's tighter control, China's property market remained solid. In view of the thriving market sentiment, the Group is optimistic about the prospects for the development of property sector. With the obtaining of the pre-sale permits for the detached villa units of our Hunan's Xiangtan Project and the ongoing application for relevant procedures and licenses for the high-rise residential buildings of Phase I of the Xiangtan Project in 2018, coupled with the expectation that these properties will all be released to the market in 2019, the Group anticipates that the project will bring about stable and substantial revenues. In addition, the infrastructure projects in the surrounding area of the project have been gradually completed. We expect that the increasingly-sophisticated recreational facilities and transportation network will help attract more robust traffic, providing favorable conditions for the Group's future operation of the hotel.

With the abundant capital and fresh insights from our shareholder, Keyne Holdings Limited, the Group will spare no effort in taking the Xiangtan Project forward in the year ahead, meanwhile getting well-prepared for the roll out of Phase II expansion. Setting eyes on the domestic high-end market, the Group will also increase investments in renewable energy and other distinctively themed and high-potential projects, in addition to hotel and residential projects, so as to cultivate new points of profit growth.

Despite the many uncertainties surrounding the economic development of Hong Kong and Mainland China brought by the China-US trade dispute, the Group will continue to take a proactive and pragmatic approach to seek change amid stability in the coming year. We will also take stock of the situation and make timely adjustment to capture the opportunities arising from the market.

On behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, the management and business partners for their unwavering trust and unmatched support, regardless of all the changes in recent years. I would also like to extend my sincere appreciation to our employees for their tireless efforts. In the years to come, the Group will adhere to the prudent and pragmatic management principle, and make strenuous efforts to expand its diversified business portfolio in Mainland China, so as to create value for the Company and its shareholders.

Qian Ling Ling

Chairman

Hong Kong, 28 March 2019

Management Discussion and Analysis

During the Year under Review, the Group continued to focus on (i) property and hotel development (the "Xiangtan Project") in Xiangtan, Hunan Province, (ii) property rentals (the "Chengdu Project") in Chengdu, Sichuan Province, (iii) film distribution and processing business, and (iv) investment in centralised heat supply business.

Financial Highlights

For the year ended 31 December 2018, the Group recorded a turnover of approximately HK$81,809,000 (2017: HK$66,890,000). Loss attributable to owners of the Company was approximately HK$354,055,000 (2017: HK$395,423,000).

For the year ended 31 December 2018, property rental income was stable and contributed approximately HK$19,688,000 (2017: HK$19,079,000) to total revenue while sales of properties contributed approximately HK$60,147,000 (2017: HK$43,578,000) to the total revenue.

Loss attributable to owners of the Company was approximately HK$354,055,000 (2017: HK$395,423,000). Basic and diluted loss per share was approximately HK10.84 cents (2017: HK14.65 cents). The Board does not recommend dividend payout for the year ended 31 December 2018 (2017: Nil). As at 31 December 2018, cash and cash equivalents were approximately HK$5,847,000 (31 December 2017: HK$7,645,000).

Business Review

(i) Xiangtan Project

Situated in the Jiuhua Economic Zone of Xiangtan, Hunan, the Xiangtan Project encompasses a land area of 325,989 square meters for the development of a five-star hotel and low density residential units.

With the recent development and operation of the infrastructure works in the few years, for example, the Maglev train between the Changsha airport and the core areas of the Changsha city and operation of the Intercity Railway which run across the major cities in Hunan, namely Changsha, Xiangtan and Zhuzhou, made into a convenient living circle to the surrounding areas.

During the Year under Review, the Group had speeded up the interior decorating works of the proposed 5-star hotel. In alignment with the five-star positioning of the hotel, the Group has entered into a management contract with the world-renowned Swissotel at the end of 2017, whereby the hotel will be operated as one of the luxury hotel brands under AccorHotels Group. The hotel, which strives to provide travellers with world-class comfort, is expected to commence its operation by the end of 2019.

For the year ended 31 December 2018, the Group had recognised 26 units of semi-detached villas and 6 units of duplex villas, with the total revenue of approximately of HK$60,147,000, which was delivered to the customers during the year. The remaining 44 units of semi-detached villas pre-sold but not delivered to customers, will be recognised in subsequent financial periods. During the Year under Review, the Group has also completed the construction of detached villa units and is currently finishing the greening, landscape design and road construction works. The Group had obtained the relevant pre-sale permits in July 2018 and commenced the pre-sale of the 27 detached villa houses with a gross area of approximately 15,000 square meters and expect to generate further cash flows from the pre-sale proceeds and further strengthen the financial position of the Group.

In the year of 2019 looking ahead, the Group will speed up the construction of the remaining Phase I property development, comprising commence the construction of newly built semi-detached villas and high rise apartments with a gross saleable area of approximately 171,000 square meters. Upon completion of the construction work in that area, the Group will spare no effort in taking the project forward into the Phase II expansion to cater for the property market boom in Xiangtan city.

(ii) Chengdu Project

For the year ended 31 December 2018, the Group's five-storey shopping centre located in No. 19 Yongling Road, Jinniu District, Chengdu City, Sichuan Province, the PRC, held for commercial use, remained almost fully leased and occupied, become the main steady income driver for the Group. Revenue of approximately HK$19,688,000 from property rental, were similar to the total recorded for the year ended 31 December 2017.

(iii) Film Distribution and Licensing and Film Processing Business

For the year ended 31 December 2018, film distribution and licensing and film processing business recorded revenues of approximately HK$1,974,000, a decrease of approximately 53.4% compared to the year ended 31 December 2017. The loss before income tax widened from approximately HK$2,925,000 to approximately HK$7,327,000 in 2017 and 2018 respectively. With the downsizing of the film business, and the Group intends to put its focus on the property development business, and considered to adjust its non-core business out of the business portfolio.

(iv) Centralised Heat Supply Business

As of 31 December 2018, an independent valuation was carried out to determine the recoverable amount of 49% equity interests in Ever-Grand Development Limited ("Ever-Grand"), for the purpose of assessment of an indication of asset impairment in complying with HKAS 36. The recoverable amount was determined at approximately HK$421,990,000, which was approximately 16% to the Group's total assets of approximately HK$2,637,551,000. The management of Ever-Grand has adopted "Discounted cashflows method" under "Income approach" as the valuation methodology.

The major inputs used were: (i) the approved budgeted future cashflows of Ever-Grand for the financial periods from 2019 to 2023; (ii) pre-tax discount rate of 19.1%; and (iii) terminal growth rate of 3%.

Currently, the Group is supplying steam to around 30 (2017: 20) active customers in Humen Town through steam transmission pipelines of approximately 4.6 km (2017: 3.3km). During the Year under Review, the steam supply volume reached approximately 178,000 tons (2017: 104,000 tons), generating revenue of approximately HK$43,958,000 to Ever-Grand, representing an increase of 81.1% as compared with the last financial year. However, in the ChangAn town, as a result of the continuous delay of the pipeline deployment plan rolled out in ChangAn town, coupled with the sustained delay of the public release from the local and central government of the Changan Binhai New Area's "Guangdong, Hong Kong, and Macau Greater Bay Area Development Plan Outline" and the Dawan District Plan was issued only in the first quarter of 2019, the business plan of the ChangAn town was further delayed and suspended with uncertainties.

As a result of the independent valuation, the Directors aware an indication of impairment of the related investment, the recoverable amount of approximately HK$421,990,000 below the carrying amount of the investment of approximately HK$648,013,000. The Directors considered to recognise an impairment loss of approximately HK$226,023,000 (2017: HK$246,862,000), for such investment.

According to the consolidated financial statements of Ever-Grand and its subsidiaries (collectively the "Ever-Grand Group") for FY2018 received by the Company, the attributable net profit to the Company for FY2018 is approximately HK$2,564,000, which falls below the guaranteed amount (given by Sky-Linked International Limited ("Sky-Linked")) of HK$112,700,000 for FY2018. The shortfall is approximately HK$110,136,000 (the "Amount in Difference"). Pursuant to the sale and purchase agreement, in respect of the non-fulfillment of the profit guarantee for FY2018, the Company will cancel the same principal amount of convertible notes from those held in escrow for FY2018 and return to Sky-Linked the remaining convertible notes held in escrow for FY2018.

Financing Activities and Events After the Reporting Period

On 18 December 2017, the Company as borrower has entered into the Facility Agreement with China Huarong International Holdings Limited as Lender, pursuant to which the Lender has agreed to make available a loan facility of up to US$42 million (equivalent to approximately HK$328 million) to the Company. The Facility has a term of 3 years from its first utilisation date and can be extended for a further 1 year pursuant to the terms of the Facility Agreement. The Facility bears interest at 8% per annum. On 2 January 2018, the loan proceeds of US$42 million (equivalent to approximately HK$328 million) was deposited into the Company.

On 4 January 2018, the Company had fully repaid a loan notes of the principal of US$20 million (equivalent to approximately HK$156 million) together with the interest, with a borrower, Krystal Light Limited which the loan notes was due in January 2018.

On 8 February 2018, Shanghai Dongyuan Huixin Equity Investment Fund Management Company (上海東源匯信股權投資基金管理有限公司) as the general partner and Shanghai Dongxing Investment Holding Development Company Limited (上海東興投資控股發展有限公司), Beijing Jinye Changfeng Industry Company Limited (北京金業長豐實業有限公司) and Chengdu Zhongfa Yellow River Industry Company Limited (成都中發黃河實業有限公司) ("Chengdu Zhongfa"), which is an indirect wholly owned subsidiary of the Company, collectively as the Limited Partners entered into the limited partnership agreement in relation to the capital contributions and management of the partnership. The partnership is engaged in the restructured debts investment project in relation to the real estate in PRC. Nanjing Jin Gao Real Estate Company Limited (南京金高房地產開發有限公司) ("Nanjing Jin Gao") and Chengdu Zhongfa entered into the loan agreement, pursuant to which, Nanjing Jin Gao has agreed to make an interest-free loan in the amount of RMB190 million (equivalent to approximately HK$236.44 million) available to Chengdu Zhongfa from 9 February 2018 for a term of two years to fund its capital commitment to the partnership. The loan is unsecured and was fully repaid during the year.

On 12 March 2018, the Company as issuer has entered into the Placing and Subscription Agreement with Donghai International Securities (Hong Kong) Limited (東海國際證券(香港)有限公司) as placing agent, Donghai International Financial Holdings Company Limited (東海國際金融控股有限公司) as subscriber, and Mr. Peter Zhu, Ms. Qian Ling Ling, Mr. Zhu Boheng, Mr. Zhang Li and Shanghai Jin Da Di Investment Company Limited (上海金大地投資有限公司) as guarantors, pursuant to which the Company has agreed to issue the US$15 million 10% senior guaranteed unsecured notes due in 2019 in favour of Donghai International Financial Holdings Company Limited (the "Notes"). The Company shall redeem the Notes on the first anniversary of the issue date of the Notes, which can be extended for a further 1 year pursuant to the terms of the placing and subscription agreement and the conditions to the Notes. On 12 March 2019, the Notes were redeemed in full by an issue of a promissory note (which carried similar terms to the Notes), except the repayment date will be due on 11 June 2019, and carries an interest rate of 15% per annum.

On 26 March 2018, Grimston Limited as vendor (the Company's wholly-owned subsidiary) entered into a sale and purchase agreement with Circle Prosper Limited as purchaser to dispose 100% equity interests in Prosper China Limited which beneficially holds the investment in the GLC Special Situations Fund L.P. (the "GLC Fund") at a consideration of HK$110,000,000. Up to the date of this report, the Group had received in the total sum of HK$60,000,000, being two instalments of the total consideration. The remaining balance of the consideration, of HK$50,000,000 shall be paid on or before the completion date, to be taken place on 30 June 2019.

Management Discussion and Analysis

On 26 March 2018, Elite State Developments Limited as vendor (the Company's wholly-owned subsidiary) entered into a sale and purchase agreement with Force Hasting Limited as purchaser to dispose 19% equity interest in Broad World Holdings Limited at a consideration of HK$65,000,000. The disposal was completed on 20 December 2018.

On 13 July 2018, the Company has completed the placing of an aggregate of 479,838,000 ordinary shares, representing approximately 13.45% of the issued share capital of the Company as enlarged by issue of the placing shares immediately after completion, have been placed to not less than six placees at the placing price of HK$0.268 per placing share. The closing price on 27 June 2018, being the date of the placing agreement, was HK$0.315 and the net placing price was approximately HK$0.262. The net proceeds from the placing are approximately HK$125.9 million. The net proceeds was intended to use for (i) as to approximately HK$70 million towards the property and hotel development project of the Group situated in Xiangtan, Hunan Province, the PRC; and (ii) as to the remaining balances of approximately HK$55.9 million for general working capital purpose and for potential investments opportunities in the future. The net proceeds were used up as intended purposes.

On 27 November 2018, the Company as issuer has entered into the Subscription Agreement with Donghai International Financial Holdings Company Limited ("Donghai Financial"), as the subscriber, and Mr. Peter Zhu, Ms. Qian Ling Ling, Mr. Zhu Boheng and Shanghai Jin Da Di Investment Company Limited, as guarantors, pursuant to which the Company has agreed to issue the series 1 notes and the series 2 notes, in the aggregate principal amount of US$20,000,000 (equivalent to approximately HK$156,920,000) in favour of Donghai Financial. The notes will bear an interest at the rate of 5% per annum and will mature on the date falling 364 days from the closing date of the series 1 notes and series 2 notes respectively. The Company shall apply the proceeds from the notes as general working capital of the Company or for any other purposes Donghai Financial may in its absolute discretion agree.

Prospects

Looking back 2018, despite being affected by several factors such as China-US trade dispute and a more complicated international environment, the PRC economy maintained stable growth momentum. Supported by the continuous improvement in the macro economy, the Group believes that the growth drivers of China's property sector will remain solid in 2019. Therefore, the Group will continue to focus on property and hotel development business in the coming year.

According to estimates of the State Council, the elderly population aged 60 or above in China is growing by approximately 6.4 million people per year, on average, and will increase to approximately 255 million by 2020, accounting for 17.8% of the total population. As the population ageing is intensifying, the domestic demand for quality elderly services has increased significantly. In view of this, the Group intends to target the increasingly affluent population in China and explore projects such as high-end retirement communities or healthcare real estate to tap the huge growth potential.

To further expand our business, the Group is taking active measures to accelerate its pace of acquisitions, aiming to focus on the investment and development of tourism and commercial property and hotel projects. Moreover, the Group also plans to expand beyond China by seeking high-quality overseas assets for acquisitions, with a view to further enriching the Group's business portfolio and broadening our geographical footprint.

In 2018, the Group recorded substantial increase in the steam supply volume of its centralised heat supply business. Coupled with the announcement of the Greater Bay Area Master Plan and the fact that environmental heat energy business is in line with China's development direction to reduce emission and save energy, the Group is optimistic about the prospects for the centralised heat supply business. In 2019, once the relevant funding and the Greater Bay Area Initiative are implemented, the Group will speed up the deployment of steam transmission pipelines. In conjunction with the gradual roll out of stringent regulatory policies, the Group believes that more customers will switch to the cost-effective steam heating, thereby bringing sustainable revenue to the Group in the long run.

Looking ahead, the Group is still faced with many challenges. However, with the solid foundation built over the years, the Group remains positive on our future growth. The Group will remain prudent and pragmatic and focus on the development of high-potential businesses, meanwhile keeping a close watch on the performance and potential opportunities of other businesses, as well as actively exploring fresh concepts to strive for new development dimensions and profit growth.

Liquidity and financial resources

As at 31 December 2018, the Group's net current assets were approximately HK$310,091,000 (31 December 2017: HK$465,132,000), with current assets of approximately HK$1,299,856,000 (31 December 2017: HK$1,146,080,000) and current liabilities of approximately HK$989,765,000 (31 December 2017: HK$680,948,000), representing a current ratio of approximately 1.31 (31 December 2017: 1.68). As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$5,847,000 (31 December 2017: HK$7,645,000).

Capital structure

As at 31 December 2018, the Group's total equity amounted to approximately HK$1,004,955,000 (31 December 2017: HK$1,206,621,000).

Management Discussion and Analysis

Borrowing and banking facilities and charge on group assets

As at 31 December 2018, the Group's outstanding borrowings and convertible notes were approximately HK$1,065,751,000 (31 December 2017: HK$798,069,000). The Group's bank borrowing of approximately HK$144,357,000 (31 December 2017: HK$186,278,000) was secured by the Group's land use rights and construction in progress with a net carrying amount of approximately HK$65,542,000 (31 December 2017: HK$77,273,000) and approximately HK$369,893,000 (31 December 2017: HK$136,638,000) respectively. The Group's bank borrowing of approximately HK$193,556,000 as at 31 December 2018 (31 December 2017: HK$233,784,000) was secured by the Group's properties under development with a net carrying amount of approximately HK$452,273,000 (31 December 2017: HK$476,240,000). The Group's current bank borrowing of approximately HK$178,000 (31 December 2017: HK$406,000) and bank overdraft of approximately HK$2,985,000 (31 December 2017: HK$2,468,000) as at 31 December 2018 were secured by the leasehold land and buildings, with a net carrying amount of approximately HK$618,000 (31 December 2017: HK$645,000). The Group's other borrowings of approximately HK$156,160,000 as at 31 December 2017 was secured by the share charges over certain subsidiaries of the Group, inter-companies loans and a personal guarantee executed by Mr. Cheng Keung Fai ("Mr. Cheng"), a former shareholder of the Company. The Group's borrowings from a shareholder of approximately of HK$1,863,000 as at 31 December 2017, and the Group's borrowings from a former shareholder of approximately of HK$13,500,000 (31 December 2017: HK$15,828,000) and other borrowings of approximately HK$52,984,000 (31 December 2017: HK$66,371,000) were unsecured. The Group's other borrowings of approximately of HK$257,844,000 (31 December 2017: Nil) were unsecured as at 31 December 2018. The Group's other borrowings of approximately of HK$296,125,000 (31 December 2017: Nil) was secured by share charges given by Keyne Holdings Limited ("Keyne"), the controlling shareholder of the Company and certain related parties, and equity pledges given by certain subsidiaries of the Company and certain related parties. The gearing ratio based on borrowings and convertible notes over total equity as at 31 December 2018 was approximately 1.060 (31 December 2017: 0.661).

Exposure to foreign exchange

The Group's assets and liabilities are mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. Income and expenses derived from the operations in the PRC were mainly denominated in Renminbi. There is no significant exposure to the fluctuation of foreign exchange rate, however, the Group will closely monitor the market and make appropriate adjustments and measures when necessary.

Contingent liabilities

Save for those disclosed in note 41 to the consolidated financial statements, there were no contingent liabilities that the Group is aware of.

Employees and remuneration policies

Staff costs for the year ended 31 December 2018 was approximately HK$37,390,000 (2017: HK$19,865,000), the significant increase of approximately 88%, was due to the equity-settled share-based payments, amounts to approximately HK$13,947,000 which represent the grant of share options to certain employees and a director during the Year under Review. The Group had a workforce of 64 (2017: 75). Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

Final dividend

The Board has resolved not to declare any final dividend for the year ended 31 December 2018 (2017: Nil).

Corporate Governance Report

The Group is committed to establish and maintain good corporate governance practices and procedures. For the year ended 31 December 2018, the Company complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This report describes the Company's corporate governance practices and explains its applications.

Directors' securities transactions

The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules was adopted by the Company. Specific enquiry of all Directors who were in office during the Year under Review was made and they have confirmed compliance with the Model Code during the financial year.

Board of Directors

(I) Composition of the Board

The Board currently comprises 6 Directors, with 3 executive Directors and 3 independent non-executive Directors whose biographical details are set out in "Biographical Details of Directors and Senior Management" on pages 51 to 53. The Directors for the year and up to the date of this report were as follows:

Executive Directors

Ms. Qian Ling Ling *(Chairman)*
Mr. Zhang Li *(Chief Executive Officer)*
Mr. Wan Peizhong *(resigned on 16 January 2018)*
Mr. Xiang Junjie
Mr. Ji Jianguo *(resigned on 16 January 2018)*

Independent Non-executive Directors

Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny

The Board is comprised of experienced and high competence individuals and a balanced composition of executive and non-executive Directors.

Each Director has been appointed on the strength of his/her calibre, experience and stature, and his/her potential contribution to the growth and development of the Group and its businesses. The Directors had no financial, business, family or other material/relevant relationship with each other during the Year under Review.

(II) Operation of the Board

The Company is headed by the Board which takes decisions objectively in the interests of the Company. To provide effective supervision of and proper guidance to the management, the Board is required to consider and approve decisions in relation to the Group's long-term strategy, annual business plan and financial budget, major acquisition and disposal, dividend policy, appointment of Directors, remuneration policy, risk management and internal control. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions and telephone conference/physical meeting.

A clear division of responsibilities is evident between the Board and the management. Decisions on important matters, such as the Group's strategic policies, major investment, funding decisions and major commitments relating to the Group's operations, are specifically reserved to the Board while decisions on the Group's general day-to-day operations are delegated to the management.

(III) Directors' training and continuous professional development

Newly appointed Directors have received briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Directors are kept informed of the Group's affairs and development in a timely manner so as to enable them to make an informed decision and to discharge their duties and responsibilities as Directors effectively.

The Company continuously provides updates and presentations to Directors on the latest developments relating to the Group's business and the legislative regulatory requirements to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group.

During the year, the Directors have also participated the following:

Directors	Attending seminar(s) and/or conference(s) on regulations and updates and/or reading materials relating to business and operation of the Company, and legal and regulatory updates
Ms. Qian Ling Ling	✓
Mr. Zhang Li	✓
Mr. Xiang Junjie	✓
Mr. Wan Peizhong *(resigned on 16 January 2018)*	✓
Mr. Ji Jianguo *(resigned on 16 January 2018)*	✓
Mr. Tsui Pui Hung	✓
Mr. Tang Ping Sum	✓
Mr. Chiu Sin Nang, Kenny	✓

Chairman and chief executive officer

In order to have a clear division between the management of the Board and the day-to-day management of the business operation of the Group, the role of the chairman is separate from that of the chief executive officer. Since 16 January 2018, the roles of the chairman and the chief executive officer of the Company have been performed by Ms. Qian Ling Ling and Mr. Zhang Li in replacement of Mr. Wan Peizhong and Mr. Xiang Junjie, respectively. During the Year under Review, the chairman, Ms. Qian Ling Ling, focused on the overall corporate development and strategic direction of the Group and provides leadership for the Board and oversees the efficient functioning of the Board. The chief executive officer, Mr. Zhang Li, was responsible for all day-to-day corporate management matters as well as assisting the chairman in planning and developing the Group's strategies. Such division of responsibilities helps to reinforce their independence and to ensure a balance of power and authority.

Non-executive Directors

All non-executive Directors are appointed for a specific term of one year from the dates of their appointments which will be renewed automatically unless early terminated by either party with at least one month prior written notice. However, they are appointed subject to retirement by rotation and re-election at the general meetings of the Company in accordance with the provisions of the bye-laws of the Company (the "Bye-laws").

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

Remuneration committee

The remuneration committee (the "Remuneration Committee") consists of 3 independent non-executive Directors and Mr. Chiu Sin Nang, Kenny is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once a year. 2 meetings were held during FY2018, during which the remuneration policy regarding the remuneration packages of the Directors and senior management of the Group was reviewed. None of the Directors participated in the determination of his/her own remuneration. Attendance of the members of the Remuneration Committee is set out in "Attendance Records at Meetings" on page 19.

According to the terms of reference of the Remuneration Committee, its major roles and functions, inter alias, include making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management of the Company and on the establishment of a formal and transparent procedure for establishing remuneration policy as well as reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives. The terms of reference of the Remuneration Committee (as revised on 20 March 2012) are available on the websites of the Stock Exchange and the Company.

The emolument payable to Directors depends on their respective terms under the service contracts (if any), and as recommended by the Remuneration Committee. Details of the Directors' emolument are set out in note 10(a) to the consolidated financial statements.

Details of the remuneration paid to members of senior management of the Group (including the Directors) by band for the year ended 31 December 2018 are set out below:

Remuneration bands	**Number of senior management**
Below HK$1,000,000	6
HK$1,000,001 to HK$7,000,000	2

Details of the Directors' and chief executive's emoluments and five highest paid individuals are set out in note 10 to the consolidated financial statements.

Nomination committee

The Company has set up a nomination committee (the "Nomination Committee") on 20 March 2012 in compliance with the CG Code. The Nomination Committee consists of 3 independent non-executive Directors and Mr. Tsui Pui Hung is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once a year. 1 meeting was held during FY2018, during which the retirement and re-election of Directors at the AGM in 2019 was discussed; and the suitability of the structure, size and composition (including the skills, knowledge and experience) of the Board with respect to the corporate strategy and future development of the Company was reviewed. Attendance of the members of the Nomination Committee is set out in "Attendance Records at Meetings" on page 19.

The major duties and functions of the Nomination Committee, inter alias, include reviewing the structure, size and composition of the Board at least annually and make recommendations to the Board on the nomination and appointment or re-appointment of Directors and the succession planning of the Directors and assess the independence of independent non-executive Directors.

Board diversity policy

The Board has adopted a board diversity policy (the "Board Diversity Policy") in relation to the nomination and appointment of new directors, which sets out: the selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural and educational background, industrial and professional experience, skills, knowledge and length of service.

The above measurements were also reviewed and adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the Directors' skills and experience to the Company's business, the Nomination Committee confirmed that the existing Board was appropriately structured and no change was required.

Nomination policy

The Board has adopted a nomination policy (the "Nomination Policy") with effect from 1 January 2019. The Nomination Policy aims at setting out the processes and criteria for nomination of directorships.

(I) Selection criteria

The Nomination Committee will take into account the following factors, which are not exhaustive and the Nomination Committee has the discretion to consider any other factors, in assessing the suitability of a proposed candidate is qualified for directorship.

- Character and integrity;
- Skills, knowledge and experience relevant and beneficial to the Company's business and strategy;
- Commitment in respect of available time and attention to the Company's businesses;
- Diversity perspectives with reference to the Board Diversity Policy (as amended from time to time);
- Compliance with the independence requirement as prescribed under the Rule 3.13 of the Listing Rules for the appointment of an independent non-executive Director.

(II) Nomination procedures

1. For appointment as an additional Director or to fill a casual vacancy to the Board, the Nomination Committee shall identify candidate, including, amongst others, considering referrals from the Board members, management and advisors of the Company, and evaluate the candidate based on the relevant selection criteria and undertaking of adequate due diligence in respect of such candidate to determine whether he/she is qualified for directorship. If the candidate is considered qualified, the Nomination Committee shall recommend to the Board for its consideration and approval.

2. For proposing candidate to stand for election at a general meeting, the Nomination Committee shall review the contribution made by the retiring Director and evaluate whether he/she can continue to fulfill his/her role in accordance with the relevant selection criteria and make recommendation to the Board for consideration.

3. The ultimate responsibility for selection and appointment of Directors rests with the entire Board.

4. The Board shall have the final decision on all matters relating to the recommendation of candidate to stand for election (and re-election) at a general meeting.

The terms of reference of the Nomination Committee (as revised on 14 December 2018) is available on the websites of the Stock Exchange and the Company.

Audit committee

The Company has set up an audit committee (the "Audit Committee") consisting of 3 independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise. Mr. Tang Ping Sum is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company. 2 Audit Committee meetings were held during FY2018. The work and findings of the Audit Committee had been reported to the Board. During FY2018, no issue brought to the attention of the Board was of sufficiently important to require disclosure in this report. Attendance of the members is set out in "Attendance Records at Meetings" on page 19.

According to the existing terms of reference of the Audit Committee, its major roles and functions, inter alia, are to review the half-year and annual financial statements before submission to the Board and to review the Company's statement on risk management and internal control systems and effectiveness of the internal audit. The terms of reference of the Audit Committee (as revised on 14 December 2018) is available on the websites of the Stock Exchange and the Company.

Attendance records at meetings

There were four regular Board meetings and one annual general meeting held during FY2018. Additional Board meetings are held when necessary. Due notice and Board papers are given to all Directors prior to a meeting in accordance with the Listing Rules and the CG Code. The attendance records of each Director at the various meetings of the Company during FY2018 are set out below. All business transacted at the below meetings has been duly documented and is maintained in accordance with applicable laws and regulations.

	Attendance/Number of meetings held during FY2018				
	Annual general meeting	**Board meetings**	**Remuneration committee meetings**	**Nomination committee meetings**	**Audit committee meetings**
Number of meetings	1	26	2	1	2
Executive Directors					
Ms. Qian Ling Ling *(appointed as Chairman on 16 January 2018)*	1/1	18/26	N/A	N/A	N/A
Mr. Zhang Li *(appointed as Chief Executive Officer on 16 January 2018)*	1/1	26/26	N/A	N/A	N/A
Mr. Xiang Junjie *(resigned as Chief Executive Officer on 16 January 2018)*	1/1	26/26	N/A	N/A	N/A
Mr. Wan Peizhong *(resigned on 16 January 2018)*	N/A	0/1	N/A	N/A	N/A
Mr. Ji Jianguo *(resigned on 16 January 2018)*	N/A	1/1	N/A	N/A	N/A
Independent Non-Executive Directors					
Mr. Tang Ping Sum	1/1	26/26	2/2	1/1	2/2
Mr. Tsui Pui Hung	1/1	26/26	2/2	1/1	2/2
Mr. Chiu Sin Nang, Kenny	1/1	26/26	2/2	1/1	2/2

Corporate Governance Report

Auditor's remuneration

The fee in relation to the audit services for FY2018 provided by Grant Thornton Hong Kong Limited, the external auditor of the Company, amounted to HK$1,800,000.

Directors' responsibilities for the financial statements

The Directors understand and acknowledge their responsibility for overseeing the preparation of financial statements for FY2018. As at 31 December 2018, the Group had total current liabilities of approximately HK$989,765,000 that would be due for repayment in the coming twelve months. As at the same date, the Group had cash and cash equivalents of approximately HK$5,847,000. In addition, the Group recorded a net loss attributable to owners of the Company of approximately HK$354,055,000 and had net cash outflow from operating activities of approximately HK$124,328,000 for the year ended 31 December 2018. These events or conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has prepared cash flow projections which cover a period of eighteen months from the date of the consolidated statement of financial position. The Directors have reviewed the Group's cash flow projections. The Directors closely monitor the Group's liquidity position and financial performance and have initiated measures to improve the Group's cash flows. These measures include obtaining additional financing from a company controlled by the controlling shareholder and other parties with lower interest cost. The Group also received a letter of financial support from a company controlled by the controlling shareholder, Keyne Holdings Limited, confirming that it will continue to provide adequate funds for the Group to meet its present and future financial obligations as they fall due. In the opinion of the Directors, in light of the above, together with the anticipated cash outflows from operations, the Group will have sufficient working capital to fulfill its financial obligations as and when they fall due in the coming eighteen months from the date of the consolidated statement of financial position. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The financial statement give a true and fair view of the affairs, profitability and cash flows of the Group in compliance with the disclosure requirements of the Hong Kong Companies Ordinance (the "Companies Ordinance") (Chapter 622 of the Laws of Hong Kong) and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for FY2018:

(i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

(ii) prudent and reasonable judgments and estimates are made; and

(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

The responsibilities of the external auditor of the Company on the financial statements are set out in the Independent Auditor's Report of this annual report.

Company secretary

During the Year under Review, the Company engages Ms. Tsang Wing Man ("Ms. Tsang"), who is the Assistant Manager of SWCS Corporate Services Group (Hong Kong) Limited, as its company secretary. Ms. Tsang is an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators, and in performing her duties as the company secretary of the Company, she reports to the Board and her primary contact person is the chief executive officer of the Company.

Ms. Tsang has confirmed that she had received no less than 15 hours of relevant professional training for FY2018.

Risk management and internal control

Goals and Objectives

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. The Board acknowledged that the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Main features of the risk management and internal control systems

The Group's risk governance structure and the main responsibilities are summarised below:

Board

- evaluates and determines the nature and extent of significant risks it is willing to take in achieving in the Group's strategic objectives;
- ensures the implementation of an effective risk management and internal control systems;
- ensures the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions; and
- oversees the management in the design, implementation and monitoring of the risk management and internal control systems.

Management

- assists the Board to perform its responsibilities of risk management and internal control systems and ensure such review cover all material controls, including financial, operational and compliance controls;
- develops the internal control audit plan and effective control activities to mitigate risks;
- identifies major and significant risks which threaten the achievement of the strategic objectives; and
- summarises the results of such risk assessment, evaluation and mitigation of the major subsidiaries and associates in risk register.

Process used to identify, evaluate and manage significant risks

The Board and the senior management led by the chief executive officer of the Company (the "Responsible Management"), with the assistance of the external consultants, are responsible for designing implementing and monitoring of the risk management and internal control systems.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk identification

- identifies significant risks through interviewing with the management and directors of major subsidiaries and associates. "CG Code Compliance and CG Report Disclosure Questionnaire" and "Risk Identification and Management Questionnaire" are used to document the risk identified by the management and directors of major subsidiaries and associates.

Risk assessment

- performs risk assessment on the key audit matters identified by the external auditor;
- assesses and evaluates significant risks identified by the subsidiaries and associates; and
- considers the range of potential consequences and how likely those consequences are to occur.

Risk response

- evaluates and prioritises the risk identified by the major subsidiaries and associates from perspective of the Group level as a whole; and
- updates the risk register by the Responsible Management.

Risk monitoring and reporting

- performs ongoing communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management;
- presents the risk questionnaires completed by the management of selected subsidiaries and associates, risk register and Internal Control Audit Plan to the Board; and
- delivers the fact-findings report with recommendations on the review and testing of internal controls on certain operating cycles and areas performed by external consultant to the Audit Committee and the Board.

Internal audit function

The Group's risk management and internal control framework is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework. The Group's internal audit function is performed by the Responsible Management who reports to the Audit Committee and the Board on a regular basis. The Group has engaged an external consultant to assist the Responsible Management to perform risk assessment process, review the Group's internal audit function and execute the internal audit plan, including performing testing of control on selected cycles in accordance with agreed upon procedures determined by the Responsible Management, for the year.

Based on the information submitted by the Responsible Management, the Board conducted an annual review on the effectiveness of the Group's risk management and internal controls systems for the year ended 31 December 2018. The Board concluded that the risk management and internal control systems of the Group were adequate and effective during the Year under Review.

Inside information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is fully aware of its obligations under the new Part XIVA of the Securities and Futures Ordinance, Chapter 571 and the Listing Rules. The Board has adopted a policy which contains the guidelines to the Directors, officers and relevant employees of the Company to ensure that the inside information of the Company is to be disseminated to public in an equal and timely manner in accordance with the applicable laws and regulations.

Constitutional documents

There is no change in the Company's constitutional documents during the year ended 31 December 2018.

Communication with shareholders

The Company recognises the importance in engaging in regular, effective and fair communication with its shareholders and is committed to conveying important and relevant information to the shareholders on a timely basis.

The Company strives to ensure that information is made publicly available in a prompt and timely disseminated manner. Disclosure of information is made through announcements on the Stock Exchange, the Company's annual and interim reports, press releases, as well as the Company website (http://www.nine-express.com.hk).

Shareholders' rights

(i) Convening a special general meeting by shareholders

Pursuant to Bye-law 58, shareholders 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 of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of section 74(3) of the Companies Act of Bermuda.

(ii) Putting forward proposals at general meetings

A shareholder shall make a written requisition to the Board or the company secretary of the Company at the head office address of the Company, specifying his/her/its shareholding information, his/her/its contact details and the proposal he/she/it intends to put forward at the general meeting regarding any specified transaction/business with supporting documents.

(iii) Putting forward enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's head office in Hong Kong at Room 4101, 41/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

Dividend Policy

The Company has adopted a dividend policy ("Dividend Policy") with effect from 1 January 2019. The Dividend Policy aims to maintain sufficient reserve for future development to create stable and sustainable returns to shareholders.

According to the Dividend Policy, the declaration of dividend and the amount of dividend are subject to, including but not limit to, the following factors: (1) financial performance of the Group; (2) retained earnings and distributable reserves of the Group; (3) expected working capital requirements, capital expenditure requirements and future development plan of the Group; (4) liquidity position of the Group; (5) any restriction under the Companies Act of Bermuda, any applicable laws, rules and regulations and the Articles of Association of the Company; and (6) any other factors the Board may consider appropriate.

The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as it deem fit and necessary.

Environmental, Social and Governance Report

Scope and Reporting Period

This Environmental, Social, and Governance (the "ESG") report by the Group, highlights its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by the Stock Exchange.

The principal activities of the Group include film distribution and licensing, film processing, rental of property, property and hotel development, and investment in centralised heat supply. This ESG report covers the Group's overall performance in two subject areas, namely, environmental and social aspects of the business operations in the headquarters office in Causeway Bay, Hong Kong; film processing operation in Kwun Tong, Hong Kong; property development in Hunan, Mainland China; and the centralised heat supply and distribution project in Dongguan, Mainland China from 1 January 2018 to 31 December 2018, unless otherwise stated.

Stakeholder Engagement and Materiality

In order to identify the most significant aspects for the Group to report on for this ESG report, key stakeholders including investors, shareholders and employees have been involved in regular engagement sessions as shown in the table below to discuss and to review areas of attention which will help the business meets its potential growth and be prepared for future challenges.

Stakeholders	Engagement Channels
Shareholders	• Annual General Meetings • Special General Meetings • Email, telephone communication and corporate's website • Publication of notices, circulars, interim and annual reports
Potential Investors	• Regular meetings • Telephone conference • Email and telephone communication
Employees	• Regular meetings • Employees' survey • Staff activities
Suppliers	• Management meetings • Regular communications

Stakeholders' Feedback

The Group welcomes stakeholders' feedback on our environmental, social and governance approach and performance. Please give your suggestions or share your views with us via email at ir@nine-express.com.hk.

Sustainability Mission and Vision

Mission

To diversify on the Group's business portfolio, create sustainable wealth and well-being to stakeholders:

- to develop centralised heat supply project, providing green energy and substantial benefits for environment, climate and health; and

- to develop property and hotel development project, establishing environmental friendly and lively society and enhance the quality of life.

Vision on Environmental, Social, and Governance

Higher standards for environmental, social and governance have been an increasing demand alongside our living standards. Not only does the Group concern meeting the needs of our generation but also the needs of our future generations, as well as sustainable development, stability and prosperity of our society. As an environmental enterprise, the Group recognises its imperative social responsibility to take lead to protect the environment and will pursue higher priority on minimising impacts on climate changes and reducing greenhouse gases emissions, especially through the centralised heat supply and distribution project.

A. Environmental

Type of emission the Group involved in the reporting period were mainly petrol, electricity, water, paper and business air travel. The business does not involve in consumption of packaging materials, production-related air, water, and land pollutions which are regulated under national laws and regulations. The Group recognises its operation that contributes to considerable amount of greenhouse gases emission and therefore strive to reduce its emission through implementing initiatives on saving natural resources.

In this ESG report, the total floor area coverage for the Group was 4,272 m^2.

1. *Greenhouse gas emission*

Scope of Greenhouse Gas Emissions	Emission Sources	Emission[1] (in tonnes of CO_2e)		Total Emission (in percentage)	
Year		**2018**	2017	**2018**	2017
Scope 1					
Direct Emission	Unleaded Petrol consumed by Company Owned Fleet	**47.08**	66.97	**11.29%**	10.24%
Scope 2					
Indirect Emission	Purchased Electricity[2]	**346.11**	556.57	**83.01%**	85.15%
Scope 3					
Other Indirect Emission	Paper Consumption	**1.80**	1.85	**0.43%**	0.28%
	Freshwater Consumption	**6.47**	11.08	**1.55%**	1.70%
	Business Air Travel	**15.50**	17.19	**3.72%**	2.63%
Total		**416.95**	653.66	**100%**	100%

Notes:

1. Emission factors were made reference to Appendix 27 of the Listing Rules and their referred documentation as set out by the Stock Exchange, unless stated otherwise.

2. Combined margin emission factor (average) of 0.88 tonnes of CO_2-e/MWh was used for purchased electricity in Mainland China.

There were 416.95 tonnes of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation in the reporting period (2017: 653.66 tonnes). The annual emission intensity was 0.098 tonnes of CO_2-e/m^3 (2017: 0.15 tonnes of CO_2-e/m^3).

2. *Direct emission*

A total of 20,929 litres of petrol (2017: 46,180 litres) was used for Group-owned vehicles in the reporting period, contributing to 47.08 tonnes of carbon dioxide equivalent (2017: 66.97 tonnes) and a total of 0.31 kg of sulphur oxides emission (2017: 0.68 kg). Nitrogen oxides and particulate matter emissions are not reported due to lack of data, they will be included in the next reporting period.

3. *Electricity*

The electricity consumption by the Group was 413,191 kWh (2017: 651,167 kWh), with an energy intensity of 96.72 kWh/m^2 (2017: 152.43 kWh/m^2). It contributes to a total of 346.11 tonnes of carbon dioxide equivalent emission (2017: 556.57 tonnes). The Group saves energy by:

- installing thermostat in air conditioners to allow flexible adjustment to temperature according to needs;
- keeping room temperature at 24-26^oC;
- turning off lightings when leaving office;
- switching off computers and other electronic devices when leaving office; and
- setting printers into energy-saving mode.

4. *Water*

The offices for film processing and the centralised heat supply project in Dongguan and Hunan consumed 15,906 m^3 (2017: 27,243.5 m^3) of freshwater in the reporting period, contributing to 6.47 tonnes of carbon dioxide (2017: 11.08 tonnes) equivalent greenhouse gases, with a water intensity of 3.72 m^3/m^2 (2017: 6.38 m^3/m^2). The consumption of its headquarters office is managed by the office building's Management Office, respective data is not available for calculation. However, it is noteworthy that freshwater consumption of the headquarters office is insignificant.

5. *Non-hazardous waste*

The Group generates no hazardous waste in its operation. Non-hazardous waste from the Group's operation are mainly office paper.

(i) Office paper

The Group practices paper saving initiatives, such as promoting e-filing, pre-setting printer to double-sided printing, posting reminders on printers to encourage double-sided printing, and allocating collection area for used paper and envelopes so that they can be reused whenever possible. Recycling bins for wastepaper are also provided to facilitate paper recycling.

A total of 0.37 tonnes of paper has been used for daily office operations such as documents printing and deliverables packaging (2017: 0.39 tonnes), contributing to 1.80 tonnes of carbon dioxide equivalent greenhouse gases (2017: 1.85 tonnes).

(ii) Waste reduction initiatives

Apart from the above initiatives to reduce paper waste, the Group also look for opportunities to utilise resources and reduce waste. For example, the Group centralises stationery supply in an allocated area so that resources can be utilised effectively and reused when possible. In addition, office pantries are provided with durable and reusable dishes and tableware. Employees are encouraged to use reusable tableware and avoid disposable tableware when having meals.

6. *Business air travel*

During the reporting period, employees travelled by air for meeting potential investors and suppliers for business projects, and attending seminars, resulting in a relative total amount of 15.50 tonnes of CO_2 emitted (2017: 17.19 tonnes). The Group encourages video conference and telephone conference in office to reduce carbon emissions.

B. Social

1. Employment and labour practices

(i) Employment

The Group offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retains talents. The Group possesses a Remuneration Committee, which is responsible for Director's remuneration review. For general staff and the management, salary is reviewed on a yearly basis taking reference to the market trend, employee's qualification, experience and performance. In this ESG report, the Group had a total number of 72 employees as of 31 December 2018, in which 64 was working as full time staff and 8 as temporary staff. All employees are from Hong Kong and different provinces in Mainland China.

Employee's Age Distribution	18-25	26-35	36-45	46-55	56 and above
2018	9%	37%	19%	20%	15%
2017	8%	30%	24%	25%	13%

Employee's Gender Distribution	Male	Female
2018	61%	39%
2017	55%	45%

The Group complies with all applicable employment and labour laws of the People's Republic of China (PRC) and Hong Kong. Employees are entitled to double pay bonus, mandatory provident fund, pension, medical insurance, life insurance, dental insurance, unemployment insurance, work-related injury insurance and maternity insurance. Various types of paid leave are also offered including annual leave, sick leave, maternity leave, paternity leave, and compassionate leave. The employment contract also set up mediation and arbitration procedures to settle any disputes.

The annual turnover rates (categorised by different age groups) in the reporting period are as follows.

Annual Turnover Rate (By Age Group)	**18-25**	**26-35**	**36-45**	**46-55**	**56 and above**
2018	0%	38%	53%	6%	8%
2017	38%	20%	21%	28%	15%

Annual Turnover Rate (By Gender)	**Male**	**Female**
2018	27%	13%
2017	13%	13%

The Group commits to ensuring a safe and healthy working environment for employees and to inspire and strengthens workforce regardless of their age, gender and ethnic backgrounds. It will continue to provide a well-structured and caring environment to employees to raise their sense of belonging and work efficiency in the Group.

(ii) Employee health and safety

The Group abides by all national regulations on labor protection, including provisions on the prevention and control of occupational diseases and the special provisions on female labor protection. Occupational health and safety guidelines established by the Group highlighted potential hazards in office and provided precautionary measures to avoid them. Regular briefing, reminders, inspection and maintenance refresh employees of the safety measures and avoid injury caused by equipment. Employees regularly participate in fire safety seminars and fire evacuation drills organized by the management office. There was no work-related fatality and lost days due to work injury in the reporting period.

Employees, who handle special equipment in the centralised heat supply project, are required to obtain safety management certificates issued by the Bureau of Quality and Technology Supervision of Dongguan City through examinations. In film-processing-related operations, the Group issues guidelines about safety of chemicals to ensure employees have ample knowledge of chemicals handling and necessary cleanup. The Waste Disposal Ordinance, Factories and Industrial Undertakings (Dangerous Substances) Regulations and Dangerous Goods Ordinance are conformed when handling chemicals.

Occupational Health and Safety Data	2018	2017
Work-related fatality	0	0
Work injury cases >3 days	0	0
Work injury cases <3 days	0	0
Lost days due to work injury	0	0

(iii) Development and training

The Group provided fire safety training, emergency management training and etiquette training for employees from centralised heat supply operation and property development operation respectively. The emergency management training trained employees of proper attitudes and procedures when encountering accidents in centralised heat supply operations and fire precaution measures in property development operations through seminars, drills and examinations, while the etiquette training improves employees' customer service quality. A total of 3 hours training courses was conducted in the reporting period. 42.25% of the employees was trained (2017: 61%) with an average training hours of 0.01 hours per employee (2017: 0.05 hours).

(iv) Employment communication

Performance appraisal is an essential platform for the management and frontline staff to evaluate their performances and voice their expectations to the Group's future development. Workload of employees is also reviewed and adjusted during appraisals to avoid overloading employees.

To raise employees' sense of belonging, the Group organises celebratory activities during festivals such as Chinese New Year, Mid-Autumn Festival and Christmas. Regular lunch gatherings also allow interactive communication and create harmonious relationships among employees. The Group will continue to organise various recreational activities to strengthen bonds among employees.

(v) Labour standard

No child nor forced labour in the Group's operations in the reporting period. The Group is in compliance with the Employment Ordinance, Chapter 57 of the Laws of Hong Kong in terms of employment management, while Mainland China's operation is in compliance with the Labour Law of the PRC.

All resume, original identification card and original certificate are checked by the Human Resources (HR) Department during interview, to avoid hiring child or forced labour.

(vi) Equal opportunity

The Group puts effort in ensuring equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws in the PRC and Hong Kong. To eliminate workspace discrimination, if employees are treated unfairly or feel discriminated against by action or speech, employees can report directly to the management. The management will investigate the reported case and take corresponding stringent disciplinary actions after verification. Employees can also report directly to the Equal Opportunities Commission.

Operating practices

(i) Supply chain management

The Group possesses a just and structured procurement procedure. Suppliers are screened by email, telephone communication, and meetings. Management meeting is conducted to review and select qualified suppliers based on the product price, quality and supplier's reliability. Supplier performance is regularly evaluated to ensure supply chain quality. Whistleblowing policy and system established by the Audit Committee, allowing employees, customers or suppliers to raise concerns on any improprieties related to the Group.

(ii) Product responsibility

Product and service complaints

The Group strives to provide high quality product and service to the public, it received no complaints in the reporting period.

Intellectual property rights and confidentiality

Employees are responsible to protect the Group's intellectual property including trademarks, patents, copyrights, industrial designs and inventions, and trade secrets, as agreed in their employment contract with the Group.

Confidentiality

Confidential information includes all knowledge of the Group affairs, secrets or information of the Group. This includes but not limited to affairs, secrets and information relating to the scope of business, personnel, operation, policies, strategies, clientele, contracts and financial position. All employees acknowledge and warrant not to disclose the above information, within and after the period of employment, by signing the employee's contract. Employees violating the confidentiality-related regulations can be dismissed. Guidelines for safety use of information and confidentiality are also included in the staff handbook.

(iii) Anti-corruption

The Group commits to managing all business without undue influence and has regarded honesty, integrity, and fairness as its core values. All Directors and employees are required to strictly follow all applicable laws on prohibiting corruption and bribery of the PRC and Hong Kong and the Group's policy to prevent potential bribery, extortion, fraud and money laundering. Gifts or entertainment from persons dealing with the Group are not allowed unless it is in the normal course of company business or approved by the Board. All conflict of interest shall be avoided and declared to the management or Director when it exists. The Group has whistleblowing policy concerning faults in financial reporting, misconduct and corruption. When confident suspicious case is received, the Group undergoes independent investigation on the case.

C. Community

1. Community investment

The Group focuses on contributing in environmental protection, and encourages staff to participate in voluntary and community services. Its employees actively engage in programmes organised by the property management office:

(i) Red Packets Recycling Programme 2018

The Red Packets Recycling Programme promotes environmental protection while celebrating the Chinese New Year. Staff is encouraged to recycle the large quantity of used or unused red packets for recycling.

(ii) Food Angel Volunteer Services

The Group encourages staff to participate volunteer service. During the Year under Review, employees participated in volunteer activities held by Food Angel for a total of 28 hours.

Future directions from the Group

The Group will continue to hold its high standards and values, and have planned to:

- enhancing energy-saving initiatives in order to reduce greenhouse gas emissions;
- providing a sound workplace for employees to build harmonious relationships; and
- increasing community investment and staff voluntary services.

Report of the Directors

The Directors have pleasure in presenting to the shareholders the Company's annual report together with the audited financial statements for FY2018.

Principal activities and business review

The Company is an investment holding company. The Group is principally engaged in property rental and property and hotel development in the PRC as well as film distribution and licensing, film processing and centralised heat supply.

Segment analysis of the Group for FY2018 is set out in note 6 to the consolidated financial statements. A list of the Company's subsidiaries, together with their places and date of incorporation, form of legal entity, principal activities and particulars of their issued shares/registered share capital, are set out in note 17 to the consolidated financial statements.

A review of business of the Group during the year and its future development, and an analysis of the Group's performance during the year using financial key performance indicators as required under Schedule 5 of the Companies Ordinance are set out in the "Chairman's Statement" on page 3 and the "Management Discussion and Analysis" on pages 4 to 11 of this annual report and the analysis of the key relationships of the Group with its stakeholders are set out in the "Environmental, Social and Governance Report" on pages 26 to 35 in this annual report. The above discussions constitute part of this report of the Directors.

Compliance with laws and regulations

The Group's operations are mainly carried out in the PRC and Hong Kong while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the PRC, Hong Kong and Bermuda. During the year ended 31 December 2018 and up to the date of this report, we have complied with all the relevant laws and regulations in the PRC, Hong Kong and Bermuda.

Environmental policies and performance

Details of Environmental Policies and performance are set out in the "Environmental, Social and Governance Report" on pages 26 to 35 in this annual report.

Key risk factors

There are strategic risks, operation risks, financial risks, legal risks, compliance risks and market risks in the development process of the Company identified and assessed on an on-going basis, of which:

1. Strategic risks are mainly attributable to the domestic and overseas macro-economies, overall trend of industrial structures and the scientific and sustainable standards of comparable strategies of the Company;

2. Operation risks are mainly attributable to the supervision and control procedures of each business segments involved in the daily operation and management process of the Company;

3. Financial risks are mainly attributable to the supervision and control procedures of financial system including overall fund raising activities of the Company, investment management and revenue audit;

4. Legal risks are mainly attributable to the domestic and overseas policies and the changing regulations and the internal contract management capability of the Company and related legal litigations;

5. Compliance risks are mainly attributable to failure of the Company to act in accordance with the applicable laws and regulations, which causes legal and financial impact on the Company; and

6. Market risks are mainly attributable to the business workflow including marketing management of the Company, market demand and supply and business partnership.

Financial results

The financial results of the Group for FY2018 are set out in the consolidated statement of profit or loss on page 62 of the consolidated financial statements.

The Directors do not recommend the payment of a dividend for the year.

Property, plant and equipment, and investment property

Details of the movements in the property, plant and equipment, and investment property of the Group during the year are set out in notes 14 and 16 to the consolidated financial statements, respectively.

Convertible notes

Details of the movements in the Company's convertible notes during the year is set out in note 31 to the consolidated financial statements.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 176.

Purchase, redemption or sale of listed securities of the Company

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

Report of the Directors

Share capital

The Company issued shares on the exercise of share options by the option holders and share placement. Details of the movements in the share capital of the Company are set out in note 33 to the consolidated financial statements.

Reserves

Details of the movements in the reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves of the Company

As at 31 December 2018, the reserve of the Company available for distribution to the shareholders amounted to HK$Nil. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

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

Directors and directors' service contracts

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

Executive Directors:

Ms. Qian Ling Ling *(Chairman)*
Mr. Zhang Li *(Chief Executive Officer)*
Mr. Xiang Junjie
Mr. Wan Peizhong *(resigned on 16 January 2018)*
Mr. Ji Jianguo *(resigned on 16 January 2018)*

Independent Non-executive Directors:

Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny

In accordance with Bye-laws 87(1) and 87(2), Ms. Qian Ling Ling and Mr. Tsui Pui Hung shall retire from office by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election as executive/independent non-executive Director (as the case may be).

In accordance with the code provision A.4.3 of the CG Code, Mr. Tsui Pui Hung has served as an independent non-executive Director for over 9 years, his further appointment is subject to a separate resolution to be approved by shareholders at the AGM in each year.

The term of office of each of the independent non-executive Directors is for an initial term of one year and renewable automatically for successive terms of one year. Either the independent non-executive Director or the Company may terminate the appointment by giving to the other party at least one month's prior notice in writing. All of the independent non-executive Directors are subject to retirement by rotation in accordance with the Bye-laws.

Each of the executive Directors has entered into a service contract with the Company for an initial term of one year and all of which shall continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 51 to 53.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company

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 and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which are required to be recorded in the register maintained by the Company under Section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of Director	Capacity	Number of ordinary share held	Approximate percentage of the issued share capital of the Company
Mr. Zhang Li	Beneficial owner	14,655,625(L)	0.41%(L)

Note: The letter "L" denotes the person's long position in such shares.

Report of the Directors

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company have any interests or short positions in the existing shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register maintained by the Company or which are required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Share options

The Company adopted a share option scheme (the "Scheme") on 2 September 2013. The major terms of the Scheme are as follows:

1. The purpose of the Scheme is to attract and retain talented personnel for future development of the Group; to provide incentive to encourage Participants (as defined below) to perform their best in achieving the goals of the Group and allow the Participants to enjoy the results of the Group attained through their efforts and contributions.

2. The eligible grantees of the Scheme are (i) any employee or officer (whether full time or part time, and including any executive director) of any member of the Group; (ii) any non-executive director (including independent non-executive director) of any member of the Group; (iii) any supplier of goods or services to any member of the Group; (iv) any customer of any member of the Group; (v) any holder of any securities or securities convertible into any securities issued by any member of the Group; (vi) any person or entity that provides advisory, consultancy or professional services to any member of the Group or any director or employee of any such entity; and (vii) any other group or classes of participants from time to time determined by the Directors as having contributed to the development and growth of the Group.

3. The subscription price determined by the Board will be at least the highest of (i) the closing price of the Company's share as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share.

4. The maximum number of shares which may be granted under the Scheme must not exceed 10% of the total number of Company's shares in issue as at the date of approval of the Scheme unless approved from its shareholders and which must not in aggregate exceed 30% of the total number of the share issued from time to time.

5. The total number of shares issued and to be issued upon exercise of the share options (the "Options") granted (including exercised, cancelled and outstanding Options) to each Participant, within the 12-month period immediately preceding the proposed date of grant, shall not exceed 1% of the total number of Company's share in issue. Any further grant shall be subject to the shareholders' approval of the Company with such Participant and his/her associates abstaining from voting.

6. The offer of a grant of the Options may be accepted within 28 days from the date of offer, HK$1 is payable by each of the Participants to the Company on acceptance of the Options as consideration for the grant.

7. There is no minimum period for which the Options must be held before the Options can be exercised unless otherwise determined by the Board.

8. The exercise period of the Options must be less than ten years from the date of grant.

9. The Scheme shall be valid and effective until 2 September 2023.

Details of the share options granted under the Scheme to certain Eligible Participants of the Company to subscribe for the shares in the Company are as follows:

				Number of share options					
	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2018	Granted during the review period	Exercised during the review period	Cancelled/ Lapsed during the review period	Outstanding as at 31.12.2018	Approximate percentage of the issued share capital of the Company %[5]
Director									
Mr. Zhang Li	23.01.2018	23.01.2018 to 22.01.2028	0.362	–	24,711,625[1]	(24,711,625)	–	–	–
Employees and other eligible participants									
Employees	23.01.2018	23.01.2018 to 22.01.2028	0.362	–	49,423,250[1]	(24,711,625)	–	24,711,625	0.69
Other eligible participant	23.01.2018	23.01.2018 to 22.01.2028	0.362	–	24,711,625[1]	(24,711,625)	–	–	–
Other eligible participants	29.03.2018	29.03.2018 to 28.03.2028	0.292	–	49,423,250[2]	(49,423,250)	–	–	–
				–	148,269,750	(123,558,125)	–	24,711,625	0.69

Notes:

(1) The closing price of the Company's shares immediately before the date on which the share options were granted was HK$0.355.

(2) The closing price of the Company's shares immediately before the date on which the share options were granted was HK$0.290.

(3) The weighted average closing price of the Company's shares immediately before the dates on which the above share options were exercised is HK$0.333.

(4) The total number of the Company's shares available for issue under the Scheme was 98,846,500 which represented approximately 2.77% of the issued share capital of the Company as at the date of this report.

(5) As at 31 December 2018, the number of issued shares of the Company, which is 3,568,790,629 shares, has been used for the calculation of approximate percentage shareholding in the Company.

Details of movements in the Company's share options during the year are set out in note 36 to the consolidated financial statements.

Equity-Linked agreements

Other than the share option scheme of the Company as disclosed above and the convertible notes as disclosed in note 31 of the consolidated financial statements, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company or subsisting during the year ended 31 December 2018.

Arrangement to purchase shares or debentures

At no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the Directors or 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 during the year.

Substantial shareholders' interests and short positions in shares and underlying shares

As at 31 December 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed in "Directors' and chief executive interests and short positions in shares, underlying shares and debentures of the Company", the following shareholders had notified the Company of their relevant interests in the ordinary shares and underlying shares of the Company:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Number of Shares held/ Number of underlying Shares held under equity interest	Approximate percentage of the issued share capital of the Company *(Note 8)*
Zhu Boheng *(Note 1)*	Interest of controlled corporation	2,148,479,860(L)	60.20%(L)
Keyne Holdings Limited *(Note 1)*	Beneficial owner	2,148,479,860(L)	60.20%(L)
Cheng Ngok Fai *(Note 2)*	Interest of controlled corporation	347,646,250(L)	9.74%(L)
Connected-World Group Limited *(Notes 2 and 4)*	Interest of controlled corporation	142,135,000(L)	3.98%(L)
	Beneficial owner	205,511,250(L)	5.76%(L)
Li Ruiguang *(Note 3)*	Interest of controlled corporation	411,747,000(L)	11.54%(L)
	Beneficial owner	54,340,000(L)	1.52%(L)
Eternal Galaxy Group Limited *(Notes 3 and 4)*	Interest of controlled corporation	238,875,000(L)	6.69%(L)
	Beneficial owner	81,686,000(L)	2.29%(L)
Cheng Cong *(Note 5)*	Interest of controlled corporation	221,544,000(L)	6.21%(L)
Asia Glory International Development Limited *(Note 5)*	Beneficial owner	221,544,000(L)	6.21%(L)
China Huarong International Holdings Limited ("CHIH") *(Note 6)*	Person having a security interest in shares	2,010,501,197(L)	56.34%(L)
China Huarong Asset Management Company Limited ("CHAMC") *(Note 6)*	Interest of controlled corporation	2,010,501,197 (L)	56.34%(L)
Jovial Paradise Limited ("JP") *(Note 7)*	Person having a security interest in shares	263,441,663(L)	7.38%(L)
Chen Wai Wai Vivien *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Crosby Investment Holdings Inc. ("CIH") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Vervain Enterprises Limited ("VE") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Vervain China Development Holdings Limited ("VCDH") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Vervain Consolidated Investments Limited ("VCI") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
InfraRed NF China Holdings Limited ("INFCH") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
InfraRed NF China Investors III Limited ("INFCI") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
InfraRed NF China Real Estate Fund III L.P. ("INFCREF") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
InfraRed Partners LLP ("IP") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
InfraRed Capital Partners (Management) LLP ("ICPM") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Soaring Sky Worldwide Limited ("SSW") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Unicorn Star Properties Limited ("USP") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Ong Jenn *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Ong Sek Hian *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Metro Holdings Limited ("MH") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Metro China Holdings Pte Ltd ("MCH") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Crown Investments Limited ("CI") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)
Firewave Management Limited ("FM") *(Note 7)*	Interest of controlled corporation	263,441,663(L)	7.38%(L)

Notes:

1. The entire issued share capital of Keyne Holdings Limited is owned by Mr. Zhu Boheng.

2. The entire issued share capital of Connected-World Group Limited is owned by Mr. Cheng Ngok Fai.

3. The entire issued share capital of Eternal Galaxy Group Limited is owned by Mr. Li Ruiguang.

4. According to the latest form of disclosure of interest filed by Connected-World Group Limited dated 17 July 2018, the entire issued share capital of Sky-Linked International Limited is owned by Connected-World Group Limited. Sky-Linked International Limited is deemed to be interested in 142,135,000 shares which fall to be allotted and issued by the Company following the exercise of the conversion rights attached to the convertible notes (the "Convertible Notes") issued by the Company on 30 March 2016 (assuming full conversion of the Convertible Notes).

   According to the latest form of disclosure of interest filed by Eternal Galaxy Group Limited dated 4 March 2017, 40% of the issued share capital of Sky-Linked International Limited is owned by Eternal Galaxy Group Limited. Sky-Linked International Limited is deemed to be interested in 238,875,000 shares which fall to be allotted and issued by the Company following the exercise of the conversion rights attached to the Convertible Notes (assuming full conversion of the Convertible Notes).

5. The entire issued share capital of Asia Glory International Development Limited is owned by Mr. Cheng Cong.

6. As disclosed in the form of disclosure of interest filed by China Huarong International Holdings Limited ("CHIH") dated 6 December 2018, CHIH has direct interest in 2,010,501,197 shares. Based on the form of disclosure of interest filed by China Huarong Asset Management Company Limited ("CHAMC") dated 6 December 2018, approximately 88.10% of the entire issued share capital of CHIH is owned by Huarong Real Estate Company Limited ("HREC"), a wholly-owned subsidiary of CHAMC, a company listed on the Main Board of the Stock Exchange (Stock Code: 02799). HREC and CHAMC are in turn deemed to be interested in the Shares held by CHIH by virtue of the provisions of the SFO.

7. As disclosed in the form of disclosure of interest filed by Jovial Paradise Limited ("JP") dated 29 October 2018, JP has direct interest in 263,441,663 shares. JP is held as to 56.23% by Unicorn Star Properties Limited ("USP") and 43.77% by Firewave Management Limited ("FM"). USP is held as to 78.26% by Soaring Sky Worldwide Limited ("SSW"), a wholly-owned subsidiary of InfraRed NF China Real Estate Fund III L.P. ("INFCREF"). InfraRed NF China Investors III Limited ("INFCI"), the General Partner of INFCREF, is a wholly-owned subsidiary of InfraRed NF China Holdings Limited ("INFCH"). INFCH is held as to 50% by Vervain Consolidated Investments Limited ("VCI") and 50% by InfraRed Partners LLP ("IP") which is entirely owned by InfraRed Capital Partners (Management) LLP ("ICPM"). VCI is a wholly-owned subsidiary of Vervain China Development Holdings Limited ("VCDH"). VCDH is a wholly-owned subsidiary of Vervain Enterprises Limited ("VE"). VE is a wholly-owned subsidiary of Crosby Investment Holdings Inc. ("CIH"). CIH is wholly-owned by Ms. Chen Wai Wai Vivien. FM is a wholly-owned subsidiary of Crown Investments Limited ("CI"). CI is a wholly-owned subsidiary of Metro China Holdings Pte Ltd ("MCH"). MCH is a wholly-owned subsidiary of Metro Holdings Limited ("MH"). MH is held as to 34.43% by Mr. Ong Jenn and 34.43% by Mr. Ong Sek Hian, respectively. USP, SSW, INFCREF, INFCI, INFCH, VCI, IP, ICPM, VCDH, VE, CIH, FM, CI, MCH, MH, Ms. Chen Wai Wai Vivien, Mr. Ong Jenn and Mr. Ong Sek Hian are deemed to be interested in the Shares held by JP by virtue of the Provisions of the SFO.

8. These percentages are calculated on the basis of 3,568,790,629 shares in issue as of 31 December 2018.

9 The letter "L" denotes the person's long position in such shares and the underlying shares.

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 of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Further extension of settlement period of the remaining consideration

As disclosed in the announcement of the Company dated 16 November 2015 (the "2015 Announcement"), on 16 November 2015, the Company, Sky-Linked International Limited (聯天國際有限公司) as the vendor (the "Vendor") and Mr. Cheng Ngok Fai and Mr. Li Ruiguang as the guarantors (collectively as the "Guarantors") entered into the formal sale and purchase agreement (the "Formal SP Agreement"), pursuant to which, the Vendor conditionally agreed to sell and the Company conditionally agreed to acquire 49% of the entire issued share capital of Ever-Grand Development Limited (the "Target Company", together with its subsidiaries, the "Target Group"), a company incorporated in the British Virgin Islands with limited liability, at an aggregate consideration of HK$882,000,000 (the "Consideration"). The Consideration would be satisfied as to (i) HK$60,000,000 in cash; and (ii) HK$822,000,000 by the issue of convertible notes (the "Convertible Notes") in the same principal amount.

On 20 March 2017, the Company and the Vendor mutually agreed in writing to further extend the settlement period of the remaining Consideration in the sum of HK$60,000,000 under the Formal SP Agreement, pursuant to which the remaining Consideration shall be settled by the Company in cash on or before 31 December 2017 by one single or multiple payment.

On 29 December 2017, the Company and the Vendor mutually agreed in writing to further extend the settlement period of the remaining Consideration, pursuant to which the remaining Consideration will be settled by the Company in cash on or before 31 December 2018 by one single or multiple payment.

On 14 March 2019, the Company and the Vendor have mutually agreed in writing to further extend the settlement period of the remaining Consideration, pursuant to which the remaining Consideration shall be settled by the Company in cash on or before 31 December 2019 by one single or multiple payment.

Profit Guarantee

As disclosed in the circular of the Company dated 3 March 2016 (the "Circular"), the Vendor and the Guarantors, jointly and severally, unconditionally and irrevocably guarantee to the Company and the net profit of the Target Group for the relevant year shall not be less than the following amounts (each, the "Guaranteed Amount"):

Relevant year	Guaranteed Amount
1 January 2016 to 31 December 2016	HK$24,500,000
1 January 2017 to 31 December 2017	HK$53,900,000
1 January 2018 to 31 December 2018	HK$112,700,000

According to the management accounts of the Target Group for FY2018 received by the Company and reviewed by the auditors of the Company, the Target Group's net profit for FY2018 is HK$2,564,000, which falls below the Guaranteed Amount for FY2018. The shortfall between the Guaranteed Amount for FY2018 and the Target Group's net profit for FY2018 is HK$110,136,000 (the "Amount in Difference").

Pursuant to the Formal SP Agreement, in respect of the non-fulfillment of the profit guarantee for FY2018, the Vendor shall on 31 May 2019 pay to the Company an amount equal to the Amount in Difference. If the Vendor fails to pay to the Company the Amount in Difference on or before 31 May 2019, the Company shall be entitled to set-off the Amount in Difference by cancelling the same principal amount of Convertible Notes from those held in escrow for FY2018. The Company shall return to the Vendor the remaining Convertible Notes held in escrow for FY2018 within 5 Business Days after such cancellation. The Group will follow the Formal SP Agreement to deal with the non-fulfillment of the profit guarantee for FY2018 (the "Decision"), because the Guaranteed Amounts and the related compensation mechanism were arrived at after arm's length negotiations between parties of the acquisition, which shall be reflected in the Consideration paid by the Group in relation to the acquisition. The Directors (including independent non-executive Directors) are of the opinion that the Decision is fair and reasonable and in the interests of the shareholders as a whole.

As at the date of this report, the Company is holding in escrow part of the Convertible Notes, amounting to a principal amount of HK$112,700,000, for the performance of the profit guarantee for FY2018.

As the amount of Convertible Notes deposited by the Vendor to the Company is sufficient for the set-off of the Amount in Difference, the Directors (including independent non-executive Directors) are of the opinion that the Vendor have fulfilled their obligations in accordance with the Formal SP Agreement in relation to the non-fulfillment of the profit guarantee for FY2018.

Connected transactions

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for the year ended 31 December 2018. During the Year under Review, the Company did not have any connected transaction which would be required to be disclosed under the Listing Rules.

None of the related party transactions set out in note 40 to the consolidated financial statements constitutes connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

Directors' interest in transactions, arrangements or contracts

No transactions, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Changes in Directors' information

In accordance with Rule 13.51B(1) of the Listing Rules, changes of the information of Directors required to be disclosed are set out below:

1. With effect from 1 January 2019, the Basic Remuneration of Ms. Qian Ling Ling, an executive Director and the chairman of the Company, has been adjusted from HK$120,000 per month to HK$130,000 per month, which was based on the Company's remuneration policy adopted for the chairman of the Company, her previous experience, qualifications, responsibility involved in the Company and the prevailing market rate.

2. With effect from 1 January 2019, the Basic Remuneration of Mr. Zhang Li, an executive Director and the chief executive officer of the Company, was adjusted from HK$110,000 per month to HK$120,000 per month, which was based on the Company's remuneration policy adopted for the chief executive officer of the Company, his previous experience, qualifications, responsibility involved in the Company and the prevailing market rate.

Emolument policy

The Group remunerates its employees including the Directors, based on their performances, experiences and the prevailing market rate. Other employee benefits include insurance, medical cover and subsidised training programme. Emoluments of the Directors are determined after taking into consideration of their expertise and job specifications.

The Company has adopted a share option scheme as an incentive to directors, employees and other eligible participants, details of the scheme is set out in note 36 to the consolidated financial statements.

Retirement schemes

The Group operates a defined contribution Mandatory Provident Fund Scheme for employees in Hong Kong. The Group's employees in the PRC, participate in a defined contribution central pension scheme operated by the local municipal government. Particulars of these schemes are set out in note 4.16 to the consolidated financial statements.

Report of the Directors

Pre-emptive rights

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

Directors' interests in competing business

None of the Directors has an interest in any business constituting a competing business to the Group during the year and up to the date of this report.

Permitted indemnity provision

The Bye-laws provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

The Company has maintained Directors' and officers' liabilities insurance in respect of legal actions against its Directors, directors of subsidiaries and senior management arising out of corporate activities throughout the Year under review. The level of the coverage is reviewed annually. Throughout the year, no claim had been made against the Directors and the officers of the Company.

Major customers and suppliers

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 16.2% and 29.5%, respectively, of the Group's total revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 48% and 86%, respectively, of the Group's total purchases for the year.

None of the Directors, their close associates, or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers and suppliers.

Sufficiency of public float

Based on the information that is publicly available to the Company and to the best of the knowledge of the Board, the Company has maintained a sufficient public float throughout the Year under Review.

Continuing obligations under Chapter 13 of the Listing Rules

1. As disclosed in the announcement made by the Company on 18 December 2017 (the "2017 Announcement"), the Company as borrower entered into the facility agreement (the "Facility Agreement") with China Huarong International Holdings Limited (中國華融國際控股有限公司) as lender (the "Lender"), pursuant to which the Lender agreed to make available a loan facility of up to US$42,000,000 (the "Commitment") to the Company. Pursuant to the Facility Agreement, if Keyne Holdings Limited ("Keyne"), being the substantial shareholder of the Company and the guarantor to the Facility Agreement, ceases to be the single largest shareholder of the Company or Ms. Qian Ling Ling, being the executive Director and Chairman of the Company and one of the guarantors to the Facility Agreement, ceases to be a Director: 1. the Company shall promptly notify the Lender upon becoming aware of the event; 2. the Lender shall not be obliged to fund a utilisation; and 3. if the Lender so requires, the Lender shall, by notice to the Company, cancel the Commitment and declare all outstanding loans under the Facility Agreement, together with accrued interest, and all other amounts accrued under the Finance Documents (as defined in the 2017 Announcement) immediately due and payable, whereupon the Commitment shall be cancelled and all such outstanding loans and amounts shall become immediately due and payable. The loan facility has a term of 3 years from its first utilisation date and can be extended for a further 1 year pursuant to the terms of the Facility Agreement.

   According to the Facility Agreement, as security for the obligations of the Company under the Facility Agreement, Keyne, as the controlling shareholder of the Company, is required to execute the share charge, pursuant to which Keyne has agreed to charge to the Lender by way of first fixed charge as beneficial owner of 2,010,501,197 ordinary shares of the Company owned by it.

2. As disclosed in the announcement made by the Company on 27 November 2018 (the "2018 Announcement"), the Company entered into the subscription agreement (the "Subscription Agreement") with Donghai International Financial Holdings Company Limited (東海國際金融控股有限公司) ("Donghai Financial") as the subscriber, and Mr. Zhu Peter, Ms. Qian Ling Ling, Mr. Zhu Boheng ("Mr. Zhu"), and Shanghai Jin Da Di Investment Company Limited* (上海金大地投資有限公司) as guarantors, pursuant to which the Company has agreed to issue the Series 1 Notes and Series 2 Notes (As defined in the 2018 Announcement) in the aggregate principal amount of US$20,000,000 in favour of Donghai Financial (the "Notes"). The Notes shall mature on the date falling 364 days from the closing date of the Series 1 Notes and Series 2 Notes respectively pursuant to the terms of the Subscription Agreement and the conditions to the Notes (the "Note Conditions").

   As at the date of the 2018 Announcement, Mr. Zhu owns 100% of the issued share capital of Keyne Holdings Limited, which in turn holds approximately 60.20% of the total issued share capital of the Company. As such, Mr. Zhu is the controlling shareholder of the Company pursuant to the Listing Rules.

Pursuant to the Subscription Agreement and the conditions to the Notes, the Notes are, and they will become, immediately due and repayable, upon the occurrence of any of the following events, among others: 1. if Mr. Zhu ceases to be the largest shareholder of the Company, directly or indirectly holding not less than 51% of the issued share capital of the Company, at any time; 2. save as previously disclosed, if Mr. Zhu incurs, creates or permits to subsist or has outstanding any Financial Indebtedness (as defined in the 2018 Announcement) or enters into any agreement or arrangement whereby it is entitled to incur, create or permit to subsist any Financial Indebtedness (as defined in the 2018 Announcement) without Donghai Financial's prior written consent; 3. if Mr. Zhu enters into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to sell, lease, transfer or otherwise dispose of any of his material assets or material part of his business without Donghai Financial's prior written consent; 4. save as previously disclosed, if Mr. Zhu creates or permits to subsist any Security Interest (as defined in the 2018 Announcement) over any shares in the Company he legally and/or beneficially holds; or 5. if Mr. Zhu sells, transfers or otherwise disposes of any shares in the Company he legally and/or beneficially holds on terms where it is or may be leased to or re-acquired or acquired by him or any of his related entities, or enters into any other preferential arrangement having a similar effect.

Events after the reporting period

Details of the events after the reporting period of the Group are set out in note 45 to the consolidated financial statements.

Auditor

RSM Hong Kong was re-appointed as the auditors of the Company at the annual general meeting of the Company held on 29 June 2018. RSM Hong Kong has resigned as auditor of the Company on 12 December 2018 since the Company and RSM Hong Kong could not arrive at a consensus on the audit fee for the year ending 31 December 2018.

Grant Thornton Hong Kong Limited has been appointed as the new auditor of the Company on 12 December 2018 to fill the casual vacancy following the resignation of RSM Hong Kong and to hold office until the conclusion of the next annual general meeting of the Company. The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Grant Thornton Hong Kong Limited. A resolution for the re-appointment of Grant Thornton Hong Kong Limited as the Company's auditor for the ensuring year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhang Li
Director

Hong Kong, 28 March 2019

Biographical Details of Directors and Senior Management

Executive Directors

Ms. QIAN Ling Ling, aged 54, is the Chairman of the Board and an executive Director. She has over 10 years of experience in hotel and commercial real estate management in the People's Republic of China (the "PRC"). Ms. Qian completed a three-year part-time course at Jiangsu Provincial Cadres College* (江蘇省省級機關幹部業餘大學) (now known as Jiangsu Provincial Management Cadres College* (江蘇省省級機關管理幹部學院)), the PRC, majoring in secretarial matters in December 1988. Prior to joining the Company, Ms. Qian has been a supervisor of Jiangsu Goldenland Real Estate Development Company Limited* (江蘇金大地房地產開發有限責任公司) since October 2007 and is responsible for the management of hotel and commercial real estate.

Ms. Qian is currently the deputy chairman of Shanghai Yuxing Charity Foundation* (上海宇興愛心慈善基金會), the vice president of Nanjing Jianye Hexi CBD Chamber of Commerce* (南京建鄴河西CBD商會) and the vice president of Jiangsu Chinese Overseas Friendship Association* (江蘇海外聯誼會).

Mr. Zhang Li, aged 30, is the Chief Executive Officer and an executive Director. He has over 5 years of experience in financial management in the PRC. Mr. Zhang graduated from Hunan University of Commerce (湖南商學院), the PRC, with a bachelor's degree in finance in June 2010. He obtained a master's degree in science, specialising in quantitative finance, from DePaul University, the USA in March 2013. Mr. Zhang has passed the fund practitioner qualification examination* (基金從業人員資格考試) of the Asset Management Association of China (中國證券投資基金業協會). Prior to joining the Company, Mr. Zhang had worked as an investment manager in BOC Expresspay Company Limited (中銀通支付商務有限公司) and was responsible for equity investment and project analysis between July 2013 and September 2015. From March 2016, Mr. Zhang has been a senior investment manager in the securities investment department of Shanghai Huahu Golden Equity Investment Fund Management Company Limited* (上海華滬金瑞股權投資基金管理有限公司).

Mr. XIANG Junjie, aged 35, is an executive Director. He has over 10 years of experience in enterprise management in the PRC. Mr. Xiang graduated with a Bachelor's Degree in Electronic Commerce from the Department of Electronic Commerce at South China University of Technology, the PRC in July 2008. Prior to joining the Company, Mr. Xiang had been the chief executive officer of Dongguan Dejin Energy Technology Limited* (東莞市德晉能源科技有限公司) since 1 January 2015.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. TSUI Pui Hung, **Walter**, aged 44, is an independent non-executive Director, the chairman of Nomination Committee and a member of each Audit Committee and Remuneration Committee. He is a practicing solicitor of the High Court of Hong Kong. Mr. Tsui holds the degrees of a Master in Laws from University of London, a Bachelor of Laws (with Honours) from Manchester Metropolitan University, a Bachelor of Science (with Honours) from the Chinese University of Hong Kong, a Postgraduate Certificate in Laws from University of Hong Kong and a Diploma in Translation from the Chinese University of Hong Kong. Mr. Tsui has years of management experience and is familiar with internal control issues and regulatory rules of listed company. He was an independent non-executive director of Easy Repay Finance & Investment Limited (formerly known as Unlimited Creativity Holdings Limited) (Stock Code: 8079) from 12 June 2007 to 30 June 2014.

Mr. TANG Ping Sum, aged 62, is an independent non-executive Director, the chairman of Audit Committee and a member of each Remuneration and Nomination Committee. He obtained a bachelor degree of commerce from University of Western Australia in December 1981 and a master degree of applied finance from Macquarie University, Australia in April 1992. He is a certified practicing accountant of Australia and was a fellow member of the Hong Kong Institute of Certified Public Accountants until 2007. Mr. Tang has over 17 years' experiences in the securities industry in Hong Kong.

From March 2003 to December 2006, Mr. Tang was an independent non-executive director of Cosmopolitan International Holdings Limited (stock code: 120), a company listed on the Stock Exchange. He was an independent non-executive director of Elife Holdings Limited (formerly known as Sino Resources Group Limited) (Stock Code: 223), a company listed on the Stock Exchange, from 30 April 2009 to 31 December 2010; and a non-executive director of Univision Engineering Limited (AIM code: UVEL), a company listed on the Alternative Investment Market of the London Stock Exchange, from December 2005 to December 2011. He was an independent non-executive director of China Investment Development Limited (Stock Code: 204), a company listed on the Stock Exchange, from 6 April 2011 to 1 February 2014.

Biographical Details of Directors and Senior Management

Mr. CHIU Sin Nang, **Kenny**, aged 57, is an independent non-executive Director, the chairman of Remuneration Committee and a member of each Audit Committee and Nomination Committee. He has over 22 years of experience in accounting. He has held various senior accounting and finance positions in sectors of property investment and development, information technology development business.

Mr. Chiu is a fellow member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. He received a Master of Accountancy degree from The Chinese University of Hong Kong in December, 2006, a Bachelor of Laws degree from the Peking University, the People's Republic of China in July, 1998, a degree of Master of Commerce in Accounting from The University of New South Wales, Australia in May, 1989, a Bachelor of Administrative Studies degree and a Bachelor of Arts (Economics) degree from the York University, Canada in June, 1986 and June, 1985 respectively. He is an independent non-executive director of Sincere Watch (Hong Kong) Limited (Stock Code: 444), a company listed on the Stock Exchange.

Grant Thornton
致同

TO THE MEMBERS OF NINE EXPRESS LIMITED
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

Opinion

We have audited the consolidated financial statements of Nine Express Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 175, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to note 2 to the consolidated financial statements, which indicates that, as at 31 December 2018, the Group had total current liabilities of approximately HK$989,765,000 that would be due for repayment in the coming twelve months. As at the same date, the Group had cash and cash equivalents of approximately HK$5,847,000. In addition, the Group recorded a net loss attributable to owners of the Company of approximately HK$354,055,000 and had net cash outflow from operating activities of approximately HK$124,328,000 for the year ended 31 December 2018. These events or conditions indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Impairment assessment of investment in an associate – Ever-Grand Development Limited ("Ever-Grand") Refer to notes 5.2(f) and 18 to the consolidated financial statements As at the end of the reporting period, the Group had 49% equity interest in Ever-Grand and its subsidiaries (collectively the "Ever-Grand Group"), which are principally engaged in the construction and operation of a steam heat distribution system. Due to further delay in pipeline construction, the Group's management performed an impairment assessment based on revised projected cash flows and an impairment loss of HK$226,023,000 was made for the year ended 31 December 2018. The impairment assessment is based on a value in use model which is dependent on certain key assumptions that require significant management judgment and estimation.	Our procedures in relation to management's impairment assessment included: – Evaluating the independent external valuers' competence, capabilities and objectivity; – Assessing the integrity of the valuation model; – Assessing the reasonableness of key assumptions based on our knowledge of the business and industry, the feasibility study for the project and the steam supply contract terms; – Checking input data to supporting evidence, including the feasibility study and approved business plans and considering the historical accuracy of management's business plans; – Assessing the availability of present and future financial resources to complete the planned construction of pipelines; and – Assessing the appropriateness of the discount rate used.

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Impairment of property, plant and equipment and land use rights attributable to Hotel CGU Refer to notes 5.2(c), 14 and 15 to the consolidated financial statements The Group had a hotel CGU containing a hotel under construction of HK$369,893,000 and land use rights of HK$65,542,000 as at 31 December 2018. The latest development plan revealed that the hotel will be upgraded to higher standard and a management service provider was contracted to operate the hotel upon completion. Due to this latest change of development plan and the associated cost of construction and future income stream, management performed an impairment test based on cash flow projections and no impairment was made for the year ended 31 December 2018. The impairment assessment is based on fair value less costs of disposal model which is dependent on certain key assumptions that require significant management judgment and estimation.	Our procedures in relation to management's impairment assessment included: – Evaluating the independent external valuers' competence, capabilities and objectivity; – Assessing the integrity of the valuation model; – Assessing the reasonableness of key assumptions based on our knowledge of the business and industry, and our consideration of market data; – Reconciling input data to supporting evidence including approved budgets and considering the historical accuracy of management's budgets; – Site inspection of the hotel under construction to confirm existence and evaluate the progress of construction; – Reviewing survey reports of the construction in progress; – Assessing the availability of present and future financial resources to complete the planned construction of the hotel; and – Assessing the appropriateness of the discount rate used.

Key Audit Matter	How our audit addressed the Key Audit Matter
3. Net realisable value of properties for sale or under development Refer to notes 5.2(d) and 20 to the consolidated financial statements The Group had properties for sale or under development with a carrying value of HK$904,459,000 as at 31 December 2018 after net realisable value write-downs. The Group's management has reassessed the net realisable value of its properties for sale or under development, a write down of HK$32,310,000 has been recorded to reduce the carrying value of properties for sale or under development to its net realisable value for the year ended 31 December 2018. The determination of net realisable value is dependent on certain key assumptions that require significant management judgment and estimation, including costs of completion and selling price per residential unit.	Our procedures in relation to management's assessment of the net realisable value of properties for sale or under development included: – Evaluating the independent external valuers' competence, capabilities and objectivity; – Assessing the reasonableness of key assumptions based on our knowledge of the business and industry, including recent sale price of similar properties; – Comparing the estimated selling price to the prevailing market price of the comparable properties with similar size, usage and location; – Comparing the carrying amounts of the properties under development taking into account the estimated amounts to completion with the related net realisable value; and – Visiting the construction sites to confirm the physical existence and evaluate the progress of construction.

Other Information

The directors are responsible for the other information. The other information comprises all the information in the 2018 annual report of the Company, 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 for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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.

The directors assisted by the Audit Committee 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. We report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981 and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

As part of an audit in accordance with HKSAs, we exercise professional 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.

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

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

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

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

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

28 March 2019

Lin Ching Yee Daniel
Practising Certificate No.: P02771

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	7	**81,809**	66,890
Cost of sales	9	**(64,463)**	(48,496)
Gross profit		**17,346**	18,394
Other income and gains	7	**16,583**	84,795
Fair value loss on investment properties	16	**–**	(6,070)
Impairment loss on investment in an associate	18	**(226,023)**	(246,862)
Impairment loss on rental receivables	21	**(5,443)**	–
Properties under development written down	20	**(32,310)**	(181,074)
Loss on early redemption of convertible notes	31	**(362)**	(183)
Share-based payments		**(25,633)**	–
Administrative expenses	9	**(50,862)**	(41,660)
Selling and marketing expenses	9	**(793)**	(3,207)
Operating loss		**(307,497)**	(375,867)
Finance income	8	**93**	168
Finance costs	8	**(48,611)**	(23,365)
Finance costs – net	8	**(48,518)**	(23,197)
Share of profits of associates	18	**2,564**	1,008
Loss before income tax		**(353,451)**	(398,056)
Income tax (expense)/credit	11	**(604)**	2,633
Loss for the year attributable to owners of the Company		**(354,055)**	(395,423)
Loss per share	13		
Basic		**HK(10.84)cents**	HK(14.65)cents
Diluted		**HK(10.84)cents**	HK(14.65)cents

Details of dividend are disclosed in note 12 to the consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Loss for the year attributable to owners of the Company	**(354,055)**	(395,423)
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	**(40,093)**	45,027
Share of other comprehensive income of associates accounted for using the equity method	**(101)**	(34)
Other comprehensive income for the year, net of tax	**(40,194)**	44,993
Total comprehensive income for the year attributable to owners of the Company	**(394,249)**	(350,430)

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**373,515**	141,889
Land use rights	15	**65,542**	77,273
Investment properties	16	**258,774**	270,819
Investments in associates	18	**638,317**	645,540
Available-for-sale financial assets	19	**–**	167,722
Prepayments and other receivables	23	**1,445**	1,380
Film rights		**102**	102
Financial assets at fair value through profit or loss	24	**–**	95,225
Total non-current assets		**1,337,695**	1,399,950
Current assets			
Properties for sale or under development	20	**904,459**	1,007,784
Inventories		**3**	1
Trade and rental receivables	21	**10,185**	15,325
Deposits for land acquisition	22	**115,404**	–
Prepayments and other receivables	23	**35,259**	38,365
Other financial assets	19	**110,000**	–
Financial assets at fair value through profit or loss	24	**110,136**	52,892
Restricted bank deposits	25	**8,563**	24,068
Cash and cash equivalents	26	**5,847**	7,645
Total current assets		**1,299,856**	1,146,080
LIABILITIES			
Current liabilities			
Trade payables	27	**31,266**	45,583
Other payables, accruals and deposits received	28	**271,095**	324,574
Contract liabilities	29	**102,626**	–
Amount due to an associate		**151**	–
Borrowings	30	**477,968**	306,678
Convertible notes	31	**104,051**	–
Tax payables		**2,608**	4,113
Total current liabilities		**989,765**	680,948

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Net current assets		**310,091**	465,132
Total assets less current liabilities		**1,647,786**	1,865,082
Non-current liabilities			
Deposits received	28	**2,562**	2,698
Borrowings	30	**483,732**	356,480
Convertible notes	31	**–**	134,911
Deferred tax liabilities	32	**156,537**	164,372
Total non-current liabilities		**642,831**	658,461
Net assets		**1,004,955**	1,206,621
EQUITY			
Equity attributable to owners of the Company			
Issued share capital	33	**35,688**	29,654
Reserves	35	**969,267**	1,176,967
Total equity		**1,004,955**	1,206,621

Approved by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Qian Ling Ling
Director

Zhang Li
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Issued share capital HK$'000 (note 33)	Share premium HK$'000 (note 35(b)(i))	Contributed surplus HK$'000 (note 35(b)(ii))	Equity component of the convertible notes HK$'000 (note 35(b)(iii))	Exchange reserve HK$'000 (note 35(b)(iv))	Special reserve HK$'000 (note 35(b)(v))	Share options reserve HK$'000 (note 35(b)(vi))	Warrants reserve HK$'000 (note 35(b)(vii))	Other reserve HK$'000 (note 35(b)(viii))	Fair value reserve HK$'000 (note 35(b)(ix))	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2017	24,712	1,880,674	459,047	101,339	(35,638)	17,926	39,804	211	56	–	(1,041,294)	1,446,837
Loss for the year	–	–	–	–	–	–	–	–	–	–	(395,423)	(395,423)
Other comprehensive income	–	–	–	–	45,027	–	–	–	(34)	–	–	44,993
Total comprehensive income for the year	–	–	–	–	45,027	–	–	–	(34)	–	(395,423)	(350,430)
Issue of shares upon share placement (note 33)	4,942	113,674	–	–	–	–	–	–	–	–	–	118,616
Shares issue expenses	–	(2,604)	–	–	–	–	–	–	–	–	–	(2,604)
Early redemption of convertible notes	–	–	–	(5,798)	–	–	–	–	–	–	–	(5,798)
Share options lapsed/cancelled	–	–	–	–	–	–	(39,804)	–	–	–	39,804	–
Warrants lapsed	–	–	–	–	–	–	–	(211)	–	–	211	–
Change in equity for the year	4,942	111,070	–	(5,798)	45,027	–	(39,804)	(211)	(34)	–	(355,408)	(240,216)
Balance at 31 December 2017	29,654	1,991,744	459,047	95,541	9,389	17,926	–	–	22	–	(1,396,702)	1,206,621

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Issued share capital HK$'000 (note 33)	Share premium HK$'000 (note 35(b)(i))	Contributed surplus HK$'000 (note 35(b)(ii))	Equity component of the convertible notes HK$'000 (note 35(b)(iii))	Exchange reserve HK$'000 (note 35(b)(iv))	Special reserve HK$'000 (note 35(b)(v))	Share options reserve HK$'000 (note 35(b)(vi))	Warrants reserve HK$'000 (note 35(b)(vii))	Other reserve HK$'000 (note 35(b)(viii))	Fair value reserve HK$'000 (note 35(b)(ix))	Accumulated losses HK$'000	Total HK$'000
Balance at 31 December 2017 and 1 January 2018, as previous reported	29,654	1,991,744	459,047	95,541	9,389	17,926	-	-	22	-	(1,396,702)	1,206,621
Adjustment on initial application of HKFRS 9 (note 3.1)	–	–	–	–	–	–	–	–	–	2,328	4,950	7,278
Balance at 1 January 2018, as restated	29,654	1,991,744	459,047	95,541	9,389	17,926	-	-	22	2,328	(1,391,752)	1,213,899
Loss for the year	-	-	-	-	-	-	-	-	-	-	(354,055)	(354,055)
Other comprehensive income	-	-	-	-	(40,093)	-	-	-	(101)	-	-	(40,194)
Total comprehensive income for the year	-	-	-	-	(40,093)	-	-	-	(101)	-	(354,055)	(394,249)
Issue of shares upon share placement (note 33)	4,798	123,798	-	-	-	-	-	-	-	-	-	128,596
Shares issue expenses	-	(2,647)	-	-	-	-	-	-	-	-	-	(2,647)
Early redemption of convertible notes (note 31(c))	-	-	-	(7,547)	-	-	-	-	-	-	-	(7,547)
Share-based payments	-	-	-	-	-	-	25,633	-	-	-	-	25,633
Issue of shares upon exercise of share options	1,236	61,305	-	-	-	-	(21,271)	-	-	-	-	41,270
Disposal of other financial assets	-	-	-	-	-	-	-	-	-	(2,328)	2,328	-
Change in equity for the year	6,034	182,456	-	(7,547)	(40,093)	-	4,362	-	(101)	(2,328)	(351,727)	(208,944)
Balance at 31 December 2018	35,688	2,174,200	459,047	87,994	(30,704)	17,926	4,362	-	(79)	-	(1,743,479)	1,004,955

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		**(353,451)**	(398,056)
Adjustments for:			
Interest income on short-term bank deposits	8	**(93)**	(168)
Finance costs	8	**44,901**	21,779
Depreciation	14	**2,410**	2,676
Loss/(Gain) on disposal of property, plant and equipment	7	**6**	(57)
Fair value gain on financial assets at fair value through profit or loss	7	**(14,911)**	(84,717)
Fair value loss on investment properties	16	**–**	6,070
Impairment loss on investment in an associate	18	**226,023**	246,862
Share of profits of associates	18	**(2,564)**	(1,008)
Properties under development written down	20	**32,310**	181,074
Impairment of rental receivables	21	**5,443**	–
Reversal of provision for impairment of trade receivables	9	**–**	(40)
Loss on early redemption of convertible notes	31	**362**	183
Equity-settled share-based payments	36	**25,633**	–
		(33,931)	(25,402)
Changes in working capital:			
Decrease/(Increase) in properties for sale or under development		**28,158**	(76,648)
(Increase)/Decrease in inventories		**(2)**	1
Increase in trade and rental receivables		**(684)**	(3,696)
Increase in prepayments and other receivables		**(7,563)**	(9,793)
Increase in deposits for land acquisition		**(115,404)**	–
(Decrease)/Increase in trade payables		**(14,375)**	25,132
Increase in other payables, accruals and deposits received, and contract liabilities		**20,786**	90,560
Cash (used in)/generated from operations		**(123,015)**	154
Income taxes paid		**(1,313)**	(747)
Net cash used in operating activities		**(124,328)**	(593)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Loan to an associate		141	(8)
Capital contribution to an associate	18	(216,327)	–
Proceeds from disposal of other financial assets	19(b)	65,000	–
Purchase of property, plant and equipment		(168,629)	(39,716)
Proceeds from disposal of property, plant and equipment		–	155
Capitalised expenditure of investment properties	16	(1,647)	–
Decrease/(Increase) in restricted bank deposits		15,169	(14,195)
Interest received	8	93	168
Net cash used in investing activities		(306,200)	(53,596)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon share placement		128,596	118,616
Proceeds from exercise of share options		41,270	–
Transaction costs attributable to issue of shares		(2,647)	(2,604)
Proceeds from borrowings	37	1,027,084	363,425
Repayment of borrowings	37	(772,949)	(438,210)
Interest paid on borrowings and commitment fee	37	(64,635)	(3,909)
Net cash generated from financing activities		356,719	37,318
NET DECREASE IN CASH AND CASH EQUIVALENTS		(73,809)	(16,871)
Cash and cash equivalents at beginning of year		5,177	21,029
Effect of foreign exchange rate changes, net		71,494	1,019
Cash and cash equivalents at end of year		2,862	5,177
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	26	5,847	7,645
Bank overdraft – secured	30	(2,985)	(2,468)
		2,862	5,177

1. CORPORATE INFORMATION

Nine Express Limited (the "Company") was incorporated in Bermuda on 9 May 2001 as an exempted company with limited liability and its issued shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's registered office address is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the head office and principal place of business in Hong Kong of the Company is located at Room 4101, 41st Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company acts as an investment holding company. The principal activities of the Company and its subsidiaries (collectively, the "Group") consist of film distribution and licensing, film processing, rental of property, property and hotel development, and investment in centralised heat supply.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the disclosure requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and amended HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

As at 31 December 2018, the Group had total current liabilities of approximately HK$989,765,000 that would be due for repayment in the coming twelve months. As at the same date, the Group had cash and cash equivalents of approximately HK$5,847,000. In addition, the Group recorded a net loss attributable to owners of the Company of approximately HK$354,055,000 and had net cash outflow from operating activities of approximately HK$124,328,000 for the year ended 31 December 2018. These events or conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

2. BASIS OF PREPARATION *(Continued)*

Management has prepared cash flow projections which cover a period of eighteen months from the date of the consolidated statement of financial position. The directors of the Company (the "Directors") have reviewed the Group's cash flow projections. The Directors closely monitor the Group's liquidity position and financial performance and have initiated measures to improve the Group's cash flows. These measures include obtaining additional financing from a company controlled by the controlling shareholder and other parties with lower interest cost. The Group also received a letter of financial support from a company controlled by the controlling shareholder, Keyne Holdings Limited, confirming that it will continue to provide adequate funds for the Group to meet its present and future financial obligations as they fall due. In the opinion of the Directors, in light of the above, together with the anticipated cash outflows from operations, the Group will have sufficient working capital to fulfill its financial obligations as and when they fall due in the coming eighteen months from the date of the consolidated statement of financial position. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

3.1 Application of new and amended HKFRSs

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2018:

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

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 Application of new and amended HKFRSs *(Continued)*

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39"). It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit losses ("ECL") model" for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in accumulated losses.

The adoption of HKFRS 9 has impacted the following areas:

- the classification and measurement of the Group's financial assets. Management holds financial assets to hold and collect the associated cash flows. The Group's trade and rental receivables, and other receivables previously classified as loans and receivables under HKAS 39 continue to be accounted for at amortised cost as they meet the held to collect business model and pass contractual cash flow characteristics test in HKFRS 9.

- investment in 19% unlisted equity interest in Broad World Holdings Limited ("Broad World") previously classified as available-for-sale financial asset under HKAS 39 measured at cost less impairment, is now measured at fair value. The Group elected to irrevocably designate the investment at fair value with changes presented in other comprehensive income. Since the accounting treatment of investment in unlisted equity interest in Broad World carried at cost less impairment under HKAS 39 is no longer applicable under HKFRS 9, the carrying amount was restated from HK$62,672,000 to its fair value of HK$65,000,000 as at 1 January 2018, and the difference of HK$2,328,000 is being recognised in fair value reserve – non-recycling in the equity as at 1 January 2018.

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 Application of new and amended HKFRSs *(Continued)*

HKFRS 9 "Financial Instruments" (Continued)

– investment in unlisted equity interest in GLC Special Situations Fund L.P. ("GLC Fund") previously classified as available-for-sale financial asset under HKAS 39 measured at cost less impairment, is now measured at fair value through profit or loss. Since the accounting treatment of investment in unlisted equity interest in GLC Fund carried at cost less impairment under HKAS 39 is no longer applicable under HKFRS 9, the carrying amount was restated from HK$105,050,000 to its fair value of HK$110,000,000 as at 1 January 2018, and the difference of HK$4,950,000 is being recognised in accumulated losses in the equity as at 1 January 2018.

– HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the Group's financial assets measure at amortised cost (including cash and cash equivalents, restricted bank deposits, trade and rental receivables, deposits and other receivables). Financial assets at fair value through profit or loss and equity instruments at fair value through other comprehensive income are not subject to the ECL assessment.

For trade and rental receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies a general approach of recognising ECL. As a result of this change in accounting policy on financial assets impairment, there is no significant impact to the Group's consolidated financial statements and accordingly no adjustment to the opening balance of equity at 1 January 2018 and no restatement to the comparative information are required.

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 Application of new and amended HKFRSs *(Continued)*

HKFRS 9 "Financial Instruments" (Continued)

The reclassifications and remeasurements made to balances recognised in the consolidated statement of financial position at the date of initial application (1 January 2018) are summarised as follows:

	At 31 December 2017 (Audited) HK$'000	**Impact on initial application of HKFRS 9** HK$'000	**At 1 January 2018 (Restated)** HK$'000
Non-current assets			
Available-for-sale financial assets	167,722	(167,722)	–
Equity instrument at fair value through other comprehensive income – Broad World	–	65,000	65,000
Financial assets at fair value through profit or loss – GLC Fund	–	110,000	110,000
Equity			
Fair value reserve (non-recycling)	–	2,328	2,328
Accumulated losses	(1,396,702)	4,950	(1,391,752)

There have been no changes to the classification or measurement of financial liabilities as a result of the application of HKFRS 9.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out in note 4.

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 Application of new and amended HKFRSs *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers and the related Amendments"

HKFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to HKFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "HKFRS 15") replaces HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18.

In accordance with the transition guidance under HKFRS 15, the Group has only been applied to contracts that are incomplete as at 1 January 2018.

Summary of nature and effect of the changes on previous accounting policies are set out below:

<u>Timing of revenue recognition</u>

Prior to 1 January 2018, revenue arising from the provision of licensing of the distribution and broadcasting rights over films and television series, sale of properties held for sale and film processing services are generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 Application of new and amended HKFRSs *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers and the related Amendments" (Continued)

Timing of revenue recognition *(Continued)*

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the Group recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard does not have significant impact on how it recognises revenue.

Accounting for revenue from sale of properties – currently, revenue from sale of properties is recognised when the risk and rewards of the properties are transferred to the buyers, which is when the construction of relevant properties has been completed and the properties have been delivered to the buyers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Under HKFRS 15, revenue is recognised when the customer obtains the control of the completed property and the Group has present right to payment and the collection of the consideration is probable.

Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customer are received significantly in advance of revenue recognition or significantly deferred.

For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a significant financing component. The Group assessed the effects of financing components are not significant and the transaction price is not adjusted.

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 Application of new and amended HKFRSs *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers and the related Amendments" (Continued)

Presentation of contract assets and liabilities

Previously, contract balances in relation to sale of properties were presented in the consolidated statement of financial position under "trade and rental receivables" or "other payables, accruals and deposits received" respectively.

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

The following adjustments are made to the amounts recognised in the consolidated statement of financial position at 1 January 2018:

	At 31 December 2017 (Audited)	Impact on initial application of HKFRS 15	At 1 January 2018 (Restated)
	HK$'000	HK$'000	HK$'000
Current liabilities			
Other payables, accruals and deposits received	324,574	(148,116)	176,458
Contract liabilities	–	148,116	148,116

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.2 New and amended HKFRSs in issue but not yet effective

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective date not yet determined
5 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

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 16 "Leases"

HKFRS 16 "Leases" replaced HKAS 17 and three related Interpretations.

As disclosed in note 4.8, the Group enters into some leases as the lessor and others as the lessee.

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.2 New and amended HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 "Leases" (Continued)

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of office properties and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease.

3. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.2 New and amended HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 "Leases" (Continued)

As disclosed in note 38, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK$6,238,000 for office properties and equipment. Upon the initial application of HKFRS 16 at 1 January 2019, the opening balances of lease liabilities and the corresponding right-of-use assets will both be adjusted to HK$4,977,000.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. investment properties, financial assets at fair value through profit or loss, and equity investment at fair value through other comprehensive income are measured at fair value).

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.1 Basis of consolidation

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

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

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

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated exchange reserve relating to that subsidiary.

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, unless the investments are classified as held for sale (or included in a disposal group that is classified as held for sale).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.2 Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the cash-generating unit containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal.

Any impairment is recognised immediately as an expense and is not subsequently reversed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.3 Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional and presentation currency.

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

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

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

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

(iii) Translation on consolidation

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

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.4 Foreign currency translation *(Continued)*

(iii) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated statement of profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4.5 Property, plant and equipment

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

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

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

Leasehold land and buildings	Shorter of remaining lease term or useful life
Furniture and fixtures	20%
Leasehold improvements	Over the shorter of the lease terms or 20%
Motor vehicles	10% – 25%
Plant, machinery and equipment	10% – $33^1/_3$%

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.6 Investment properties

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

After initial recognition, the investment property is stated at its fair value. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

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

4.7 Film rights

Film right with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the film right has suffered an impairment loss.

4.8 Leases

The Group as lessee

Operating leases

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

Prepaid land lease payments or land use rights are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

The Group as lessor

Operating leases

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

4.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.10 Properties for sale or under development

Properties for sale or under development are stated at the lower of cost and net realisable value. Costs include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

On completion, the properties under development are reclassified to properties for sale at the carrying amount.

4.11 Financial instruments

Policy applicable from 1 January 2018

Recognition and derecognition of financial instruments

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

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets but has not retained control on the financial assets.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss.

The Group classified its financial assets into (i) amortised cost; (ii) FVTPL; or (iii) fair value through other comprehensive income ("FVOCI"). The classification is determined by both (i) the entity's business model for managing the financial asset; and (ii) the contractual cash flow characteristics of the financial asset.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.11 Financial instruments *(Continued)*

Policy applicable from 1 January 2018 (Continued)

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial asset are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

– They are held within a business mode whose objective is to hold the financial assets and collect its contractual cash flows; and

– The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income and gains in the consolidated statement of profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, restricted bank deposits, trade and rental receivables, and other receivables fall into this category of financial instruments.

Financial assets at FVTPL

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell' are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment, the Group elects to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income and accumulated in "fair value reserve – non-recycling" in equity. Such elections are made on an instrument-by-instrument basis, but only be made if the investment meets the definition of equity from the issuer's perspective.

The equity instruments at FVOCI are not subject to impairment assessment. The cumulative gain or loss in "fair value reserve – non-recycling" will not be reclassified to profit or loss upon disposal of the equity investments, and will be transferred to accumulated losses.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.11 Financial instruments *(Continued)*

Policy applicable from 1 January 2018 (Continued)

Classification and measurement of financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability under HKFRSs. The Group's financial liabilities include trade payables, other payables and accruals, borrowings, and convertible notes.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss.

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

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

Convertible notes
Convertible notes which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound financial instruments consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the notes into equity of the Group, is included in equity as convertible notes reserve. The liability component is subsequently carried at amortised cost using the effective interest method until extinguished on conversion or redemption.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.11 Financial instruments *(Continued)*

Policy applicable from 1 January 2018 (Continued)

Classification and measurement of financial liabilities *(Continued)*

Trade and other payables

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

Derivative financial instruments and contingent consideration

Derivative financial instruments and contingent consideration are recognised at fair value at the end of each reporting period with gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Policy applicable before 1 January 2018

Classification and measurement of financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.11 Financial instruments *(Continued)*

Policy applicable before 1 January 2018 (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

4.12 Impairment of financial assets

Policy applicable from 1 January 2018

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost, trade and rental receivables, and contract assets recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

ECLs are measured on either of the following bases:

– 12-month ECL: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECL: these are losses that are expected to result from all possible default events over the expected life of the items to which the ECL model applies.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Impairment of financial assets *(Continued)*

Policy applicable from 1 January 2018 (Continued)

In applying this forward-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

<u>Trade and rental receivables</u>

The Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

<u>Other financial assets measured at amortised cost</u>

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Impairment of financial assets *(Continued)*

Policy applicable from 1 January 2018 (Continued)

Other financial assets measured at amortised cost *(Continued)*

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;

– 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.

Despite the aforegoing, 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 end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade and rental receivables, other financial assets measured at amortised cost are set out in note 43(c).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Impairment of financial assets *(Continued)*

Policy applicable before 1 January 2018

At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the financial assets have been affected.

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

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc..

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.13 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 4.15) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 4.12 and are reclassified to receivables when the right to the consideration has become unconditional (see note 4.11).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 4.15). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 4.11).

For a single contract with the customers, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

4.14 Cash and cash equivalents

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

4.15 Revenue recognition

Revenue represents the net invoiced value of film rights licensed, after allowances for trade discounts; the value of services rendered; sale of properties and rental income received and receivable from its investment property less value-added tax during the year.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer

2. Identifying the performance obligations

3. Determining the transaction price

4. Allocating the transaction price to the performance obligations

5. Recognising revenue when/as performance obligations are satisfied

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.15 Revenue recognition *(Continued)*

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Group's revenue and other income recognition policies are as follows:

Revenue from sale of properties

Revenue is measured based on the consideration specified in a contract with a customer and recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

For property development and sales contracts for which the control of the property is transferred at a point in time, revenue is recognised when the customer obtains the control of the completed property and the Group has present right to payment and the collection of the consideration is probable.

For contract where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a significant financing component.

Deposits and instalments received from purchasers prior to delivery of the properties to the customers are contract liabilities.

Revenue from film distribution and licensing

Revenue from the licensing of the distribution and broadcasting rights over films and television series is recognised, when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.15 Revenue recognition *(Continued)*

Revenue from film processing

Revenue from the provision of film processing services is recognised, when the services are provided.

Rental income

Rental income from investment property is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

Interest income

Interest income is recognised, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income

Dividend income is recognised, when the shareholder's right to receive payment has been established.

4.16 Employee benefits

Employee leave entitlements

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

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

Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all eligible employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

Termination benefits

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.17 Share-based payments

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

4.18 Borrowing costs

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

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

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

4.19 Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.19 Taxation *(Continued)*

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

4.20 PRC land appreciation tax ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures. LAT is recognised as an income tax expense. LAT paid is a deductible expense for PRC Enterprise Income tax ("EIT") purposes.

4.21 Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.21 Impairment of non-financial assets *(Continued)*

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.22 Provisions and contingent liabilities

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

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

4.23 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

4.24 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

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

- (i) has control or joint control over of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.24 Related parties *(Continued)*

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

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

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

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

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

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

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

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

5. CRITICAL JUDGMENTS AND KEY ESTIMATES

5.1 Critical judgments in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgments that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

5. CRITICAL JUDGMENTS AND KEY ESTIMATES *(Continued)*

5.1 Critical judgments in applying accounting policies *(Continued)*

(a) Classification of investment

Determining whether an investment in another entity should be classified as an investment in an associate requires judgment. Management considers all aspects of the relationship between the investor and the investee in order to determine whether the Group has significant influence over the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Management has performed an assessment and considered the current accounting treatments for its associates to be appropriate.

Talent Films Limited ("Talent Films"), Ever-Grand Development Limited ("Ever-Grand") and Shanghai Jiaguan Tianqi Investment Centre (Limited Partnership) ("Shanghai Jiaguan"/the "Partnership") are accounted for as associates since the Group has significant influence on but no control or joint control over these entities. As the majority of the directors of Talent Films and Ever-Grand are nominated by the respective major shareholders, the Group does not control or joint control Talent Films and Ever-Grand. For Shanghai Jiaguan, the Group has participated in policy-making processes through its voting right that contributes to significant influence on the the Partnership.

(b) Contingent liabilities

As described in notes 18 and 41 to the consolidated financial statements, the Group acquired 49% equity interest in Ever-Grand and its PRC subsidiaries during 2016, but had not yet reported the relevant transaction to the PRC tax authorities. The relevant PRC tax laws and regulations would enable the PRC tax authorities to impose a penalty of 50% to 3 times of the unpaid EIT.

After consulting PRC legal counsel, the Directors are of the opinion that the Group has already substantially withheld the EIT and made adequate provision for the non-withheld portion, thereby containing the risk of penalty to reasonably low level.

The Directors conclude that it is not probable that the Group will be required to pay the penalty and no provision in relation to any penalty is necessary as at 31 December 2018. As a result, the Directors classify the potential penalty as contingent liabilities and disclose as such in note 41.

5. CRITICAL JUDGMENTS AND KEY ESTIMATES *(Continued)*

5.1 Critical judgments in applying accounting policies *(Continued)*

(c) Legal title of properties under development

As stated in note 20 to the consolidated financial statements, as at 31 December 2018, the Group fails to develop a parcel of land in accordance with the prescribed period of time stipulated in land grant agreements, the vendor of the land (the "Land Vendor") can issue an order to confiscate the land whilst imposing certain penalties to the Group. Due to incomplete resident relocation compensation process caused by the government, the governing agent of the relevant land has not yet launched the idle land investigation process. Based on the Group's PRC legal counsel, the Directors are of the opinion that the risk of the relevant land being classified as idle land and/or subject to penalty by the relevant government agent is relatively low. The Directors consider no penalty provision in respect of land is required to be recognised as at 31 December 2018.

5.2 Key source of estimation uncertainty

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

(a) Estimation of fair value of investment properties

The fair value of investment properties are determined by using direct comparison approach. Details of the judgment and assumptions have been disclosed in note 44.

The carrying amount of investment properties as at 31 December 2018 is HK$258,774,000 (2017: HK$270,819,000).

(b) Useful lives and depreciation of property, plant and equipment

Management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions and with reference to the industry practices. It may also change significantly as a result of technical innovations and competitor actions in response to industry cycles.

Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The carrying amount of property, plant and equipment as at 31 December 2018 is HK$373,515,000 (2017: HK$141,889,000).

5. CRITICAL JUDGMENTS AND KEY ESTIMATES *(Continued)*

5.2 Key source of estimation uncertainty *(Continued)*

(c) Impairment of property, plant and equipment and land use rights

The Group assesses annually whether property, plant and equipment and land use rights have any indication of impairment. The recoverable amounts, if required, are determined based on value-in-use calculations or market valuations. These calculations require the use of judgment and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and affecting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

No impairment was made for the years ended 31 December 2018 and 2017.

(d) Net realisable value of properties for sale or under development

The Group writes down properties for sale or under development to their net realisable value based on assessment of the realisability of these properties.

Net realisable value for properties for sale or under development takes into account cost to completion based on management's experience and net sales value based on prevailing market conditions. If there is an increase in cost to completion or a decrease in net sales value, the net realisable value will decrease which may result in writing down properties for sale or under development to net realisable value.

Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, the carrying value of properties for sale or under development is adjusted in the period in which such estimate is changed.

Properties under development written down of HK$32,310,000 (2017: HK$181,074,000) is made for the year ended 31 December 2018.

5. CRITICAL JUDGMENTS AND KEY ESTIMATES *(Continued)*

5.2 Key source of estimation uncertainty *(Continued)*

(e) Impairment of trade and rental receivables

Management regularly reviews the recoverability and/or ageing of trade and rental receivables. Appropriate impairment for estimated irrecoverable amounts is recognised in the consolidated statement of profit or loss when there is objective evidence that the asset is impaired.

In determining whether there is objective evidence of impairment loss, the Group's management determines the provision for impairment of trade and rental receivables on a forward-looking basis and the expected lifetime losses are recognised from initial recognition of the assets. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade and rental receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. In making the judgment, management considers available reasonable and supportable forward-looking information such as actual or expected significant changes in the operating results of customers, actual or expected significant adverse changes in business and customers' financial position. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

As at 31 December 2018, provision for impairment of trade receivables amounted to HK$69,000 (2017: HK$69,000) and rental receivables amounted to HK$5,236,000 (2017: nil).

(f) Impairment of investment in an associate

At the end of each reporting period, the Group reviews internal and external sources of information to identify indicators that the Group's investments in associates may be impaired.

The recoverable amounts of the investments in associates are the higher of value-in-use and fair value less costs of disposal. In determining value-in-use, an entity estimates either: (a) its share of the present value of the estimated future cash flows expected to be generated by the associates and proceeds on disposal, or (b) the present value of estimated future cash flows expected to arise from dividends to be received and proceeds on disposal. Any impairment loss is recognised by writing down the investments in associates.

Impairment loss of HK$226,023,000 for investments in associates is made for the year ended 31 December 2018 (2017: HK$246,862,000).

5. CRITICAL JUDGMENTS AND KEY ESTIMATES *(Continued)*

5.2 Key source of estimation uncertainty *(Continued)*

(g) Income taxes (including LAT)

The Group is subject to income taxes mainly in statutory jurisdictions of Hong Kong and the PRC. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

During the year, HK$604,000 (2017: HK$2,633,000) of income tax was charged (2017: credited) to profit or loss based on the estimated profit from the Group's operations.

6. SEGMENT INFORMATION

For management purposes, the Group is organised into five business units – property rental, film distribution and licensing, film processing, property and hotel development and centralised heat supply.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before income tax. The profit/(loss) before income tax is measured consistently with the Group's profit/(loss) before income tax except that finance income, finance costs, as well as head office and corporate expenses, and certain other income are excluded from such measurement.

Segment assets exclude restricted bank deposits, cash and cash equivalents, financial assets at FVTPL and other unallocated head office and corporate assets as these assets are managed on a Group basis.

Segment liabilities exclude convertible notes and other unallocated head office and corporate liabilities as these liabilities are managed on a Group basis.

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

6. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2018

	Property rental HK$'000	Film distribution and licensing HK$'000	Film processing HK$'000	Property and hotel development HK$'000	Centralised heat supply HK$'000	Total HK$'000
Segment revenue:						
External revenue from contracts with customers by timing of revenue recognition						
– Point in time	–	1,113	861	60,147	–	62,121
External revenue from other sources	19,688	–	–	–	–	19,688
Total revenue	19,688	1,113	861	60,147	–	81,809
Segment results	4,028	(5,623)	(1,704)	(45,693)	(223,467)	(272,459)
Unallocated corporate expenses						(32,474)
Finance income						93
Finance costs						(48,611)
Loss before income tax						(353,451)
Income tax expense						(604)
Loss for the year						(354,055)

6. SEGMENT INFORMATION *(Continued)*

As at 31 December 2018

	Property rental HK$'000	Film distribution and licensing HK$'000	Film processing HK$'000	Property and hotel development HK$'000	Centralised heat supply HK$'000	Unallocated HK$'000	Total HK$'000
Assets and liabilities							
Segment assets	270,032	128	1,008	1,487,051	–	241,015	1,999,234
Segment liabilities	54,622	7,455	477	793,081	–	776,961	1,632,596
Investments in associates	216,327	–	–	–	421,990	–	638,317
Other segment information:							
Capital expenditure	1,647	–	–	240,219	–	561	242,427
Depreciation	802	–	332	102	–	1,174	2,410
Properties under development written down	–	–	–	32,310	–	–	32,310
Impairment loss on investment in an associate	–	–	–	–	226,023	–	226,023
Share of profits of associates	–	–	–	–	2,564	–	2,564

6. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017

	Property rental HK$'000	Film distribution and licensing HK$'000	Film processing HK$'000	Property and hotel development HK$'000	Centralised heat supply HK$'000	Total HK$'000
Segment revenue:						
External revenue from contracts with customers by timing of revenue recognition						
– Point in time	–	2,343	1,890	43,578	–	47,811
External revenue from other sources	19,079	–	–	–	–	19,079
Total revenue	19,079	2,343	1,890	43,578	–	66,890
Segment results	3,932	(2,291)	(634)	(192,834)	(245,871)	(437,698)
Unallocated corporate income						62,839
Finance income						168
Finance costs						(23,365)
Loss before income tax						(398,056)
Income tax credit						2,633
Loss for the year						(395,423)

6. SEGMENT INFORMATION *(Continued)*

As at 31 December 2017

	Property rental HK$'000	Film distribution and licensing HK$'000	Film processing HK$'000	Property and hotel development HK$'000	Centralised heat supply HK$'000	Unallocated HK$'000	Total HK$'000
Assets and liabilities							
Segment assets	285,459	111	1,335	1,325,076	–	288,509	1,900,490
Segment liabilities	56,480	7,278	473	1,015,803	–	259,375	1,339,409
Investments in associates	–	–	–	–	645,540	–	645,540
Other segment information:							
Capital expenditure	42	–	–	60,129	–	192	60,363
Depreciation	907	–	450	152	–	1,167	2,676
Fair value loss on investment properties	6,070	–	–	–	–	–	6,070
Properties under development written down	–	–	–	181,074	–	–	181,074
Impairment loss on investment in an associate	–	–	–	–	246,862	–	246,862
Share of profits of associates	–	–	–	–	1,008	–	1,008

6. SEGMENT INFORMATION *(Continued)*

6.1 Geographical information

2018

	Hong Kong HK$'000	Mainland China HK$'000	Others HK$'000	Total HK$'000
Revenue	**878**	**79,835**	**1,096**	**81,809**
Non-current assets	**3,512**	**1,334,183**	**–**	**1,337,695**
Capital expenditure	**561**	**241,866**	**–**	**242,427**

2017

	Hong Kong HK$'000	Mainland China HK$'000	Others HK$'000	Total HK$'000
Revenue	2,756	62,657	1,477	66,890
Non-current assets (excluding available-for-sale financial assets and financial assets at fair value through profit or loss)	4,393	1,132,610	–	1,137,003
Capital expenditure	192	60,171	–	60,363

6.2 Information about major customers

The Group's customer base include one (2017: one) customer in the property rental segment with whom transaction has exceed 10% of the Group's total revenue. Revenue from this customer amounted to approximately HK$13,294,000 (2017: HK$12,926,000) during the year ended 31 December 2018.

7. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of film rights licensed, after allowances for trade discounts; the value of services rendered; sales of properties and rental income received and receivable from its investment property less value-added tax during the year.

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
Sales of properties	60,147	43,578
Film distribution and licensing income	1,113	2,343
Film processing income	861	1,890
	62,121	47,811
Revenue from other sources		
Property rental income	19,688	19,079
	81,809	66,890
Other income and gains		
Fair value gains on financial assets at fair value through profit or loss (note 24)	14,911	84,717
(Loss)/Gain on disposal of property, plant and equipment	(6)	57
Others	1,678	21
	16,583	84,795

8. FINANCE COSTS – NET

	2018 HK$'000	2017 HK$'000
Finance costs:		
Interest on bank borrowings wholly repayable within five years	**31,191**	37,821
Interest on other borrowings	**42,500**	32,715
Interest on convertible notes (note 31(b))	**14,123**	16,333
Foreign exchange difference, net	**3,710**	1,586
	91,524	88,455
Less: amounts capitalised on qualifying assets	**(42,913)**	(65,090)
Total finance costs	**48,611**	23,365
Finance income:		
Interest income on short-term bank deposits	**(93)**	(168)
Total finance income	**(93)**	(168)
Finance costs – net	**48,518**	23,197

Borrowing costs of the loans used to finance the property development projects of the Group have been capitalised at a capitalisation rate of 8.62% during the year (2017: 11.29%).

9. EXPENSES BY NATURE

	2018 HK$'000	2017 HK$'000
Employee benefit expenses (excluding Directors' remuneration):		
Wages and salaries	**18,053**	14,989
Pension costs – defined contribution plans and social security costs	**1,606**	941
	19,659	15,930
Directors' remuneration (excluding share-based payments) (note 10(a))	**4,096**	4,370
Auditors' remuneration	**1,960**	2,122
Depreciation (note 14)	**2,410**	2,676
Cost of inventories recognised as expenses*	**46**	112
Cost of properties sold (note 20)*	**59,981**	43,578
Operating lease rentals in respect of buildings*	**4,185**	3,617
Direct operating expenses of investment property that generate rental income	**3,078**	3,246
Reversal of provision for impairment of trade receivables (note 21)	**–**	(40)
Professional fees	**8,378**	5,960
Selling and marketing expenses	**793**	3,207
Others	**11,532**	8,585
Total cost of sales, administrative expenses and selling and marketing expenses	**116,118**	93,363

* The cost of inventories recognised as expenses, cost of properties sold and direct operating expense of investment property that generate rental income for the year are included in "cost of sales" of the consolidated statement of profit or loss.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS AND INTEREST OF DIRECTORS

(a) Directors' and chief executive's emoluments

	2018 HK$'000	2017 HK$'000
Fees	312	436
Other emoluments:		
Salaries and allowances	3,766	3,914
Pension costs – defined contribution plans	18	20
	4,096	4,370
Equity-settled share-based payments	5,224	–
	9,320	4,370

2018

	Fees HK$'000	Salaries and allowances HK$'000	Employer's contribution to pension scheme HK$'000	Equity-settled share-based payments HK$'000	Total HK$'000
Executive Directors:					
Mr. Xiang Junjie (Note (i))	–	600	18	–	618
Mr. Ji Jianguo (Note (ii))	–	176	–	–	176
Mr. Wan Peizhong (Note (ii))	–	–	–	–	–
Ms. Qian Ling Ling	–	1,530	–	–	1,530
Mr. Zhang Li (Note (iii))	–	1,460	–	5,224	6,684
	–	3,766	18	5,224	9,008
Independent Non-executive Directors:					
Mr. Tsui Pui Hung	120	–	–	–	120
Mr. Tang Ping Sum	96	–	–	–	96
Mr. Chiu Sin Nang, Kenny	96	–	–	–	96
	312	–	–	–	312
	312	3,766	18	5,224	9,320

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS AND INTEREST OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

Notes:

(i) Resigned as chief executive officer on 16 January 2018

(ii) Resigned on 16 January 2018

(iii) Appointed as chief executive officer on 16 January 2018

2017

	Fees HK$'000	Salaries and allowances HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive Directors:				
Mr. Xiang Junjie	–	924	18	942
Mr. Ji Jianguo	–	600	–	600
Ms. Qian Ling Ling	–	1,170	–	1,170
Mr. Zhang Li	–	1,170	–	1,170
Mr. Tai Yat Chung (Note (i))	–	50	2	52
		3,914	20	3,934
Independent Non-executive Directors:				
Mr. Tsui Pui Hung	120	–	–	120
Mr. Tang Ping Sum	96	–	–	96
Mr. Chiu Sin Nang, Kenny	96	–	–	96
Mr. Gao Hong (Note (i))	124	–	–	124
	436	–	–	436
	436	3,914	20	4,370

Note:

(i) Resigned on 7 July 2017

There were no arrangements under which a director waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS AND INTEREST OF DIRECTORS *(Continued)*

(b) Emoluments of five-highest paid individuals

In 2018, the five individuals whose emoluments were the highest in the Group included two (2017: three) Directors whose emoluments are reflected in the analysis presented in note 10(a). The emoluments payable to the remaining three (2017: two) individuals during the year are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries and allowances	**3,473**	2,377
Pension costs – defined contribution plans	**137**	118
Equity-settled share-based payments	**8,723**	–
	12,333	2,495

The emoluments of the three (2017: two) individuals with the highest emoluments are within the following bands:

	2018	2017
Emolument bands (in HK dollar)		
HK$1,000,001 – HK$1,500,000	**1**	2
HK$5,000,001 – HK$6,000,000	**2**	–

11. INCOME TAX EXPENSE/(CREDIT)

	2018 HK$'000	2017 HK$'000
Current tax – Hong Kong		
Charge for the year	–	54
Overprovision in prior years	(30)	–
	(30)	54
Current tax – PRC		
(Credit)/Charge for the year	(6)	2,464
Total current tax	(36)	2,518
Deferred tax (note 32)	640	(5,151)
Total tax expense/(credit)	604	(2,633)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following date.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying entities will be taxed at 8.25%, and the profits above HK$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. For the year ended 31 December 2018, none of the subsidiary of the Group is qualifying for the two-tiered profits tax rates regime.

For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at a flat rate of 16.5% on the estimated assessable profit for the year.

The applicable tax rate for the Group's operations in Mainland China is 25%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

11. INCOME TAX EXPENSE/(CREDIT) *(Continued)*

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

	2018 HK$'000	2017 HK$'000
Loss before income tax	**(353,451)**	(398,056)
Tax at the statutory tax rates	**(61,187)**	(82,489)
Tax effects of:		
– Expenses not deductible for tax purposes	**63,072**	88,656
– Income not subject to tax	**(2,990)**	(14,773)
– Tax losses for which no deferred income tax asset was recognised	**2,026**	6,007
– Associate's results reported net of tax	**(423)**	(166)
Overprovision in prior years	**(30)**	–
Temporary difference not recognised	**136**	140
Utilisation of tax losses	**–**	(8)
Total tax expense/(credit)	**604**	(2,633)

The weighted average effective tax rate was 17.3% (2017: 20.7%).

12. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
	HK$'000	HK$'000
Loss for the year attributable to owners of the Company	**(354,055)**	(395,423)
Weighted average number of ordinary shares in issue (thousands)	**3,267,541**	2,698,645

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had two categories of dilutive potential ordinary shares, share options and convertible notes for the years ended 31 December 2018 and 2017.

For the years ended 31 December 2018 and 2017, the convertible notes were assumed to have been converted into ordinary shares, and the net loss was adjusted to eliminate the interest expense less the tax effect. Potential ordinary shares arising from the assumed conversion of convertible notes were not included in the calculation of diluted loss per share because they are anti-dilutive for the years ended 31 December 2018 and 2017. For share options, calculation is done to determine the number of shares that could have acquired at fair value (determined as average annual market share price of the Company's shares) based on the monetary value of the subscription right attached to the outstanding share options. As the exercise price of the share options granted by the Company was higher than the average annual market price of the Company's shares for the years ended 31 December 2018 and 2017, the outstanding share options had no dilutive effect on loss per share. Therefore, diluted loss per share for the years ended 31 December 2018 and 2017 equals basic loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Leasehold land and buildings HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Total HK$'000
At 1 January 2017							
Cost	355,239	1,100	1,840	5,789	17,009	4,623	385,600
Accumulated depreciation	–	(428)	(1,644)	(3,444)	(13,641)	(3,663)	(22,820)
Accumulated impairment loss	(290,786)	–	–	–	–	–	(290,786)
Net carrying amount	64,453	672	196	2,345	3,368	960	71,994
Year ended 31 December 2017							
Opening net carrying amount	64,453	672	196	2,345	3,368	960	71,994
Additions	68,074	–	93	–	–	173	68,340
Disposals/write off	–	–	(34)	(1)	(28)	(26)	(89)
Depreciation	–	(27)	(90)	(1,190)	(959)	(410)	(2,676)
Exchange realignment	4,111	–	8	61	123	17	4,320
Closing carrying amount	136,638	645	173	1,215	2,504	714	141,889
At 31 December 2017							
Cost	450,328	1,100	1,928	6,064	16,798	4,821	481,039
Accumulated depreciation	–	(455)	(1,755)	(4,849)	(14,294)	(4,107)	(25,460)
Accumulated impairment loss	(313,690)	–	–	–	–	–	(313,690)
Net carrying amount	136,638	645	173	1,215	2,504	714	141,889
Year ended 31 December 2018							
Opening net carrying amount	**136,638**	**645**	**173**	**1,215**	**2,504**	**714**	**141,889**
Additions	**248,050**	**–**	**30**	**479**	**213**	**161**	**248,933**
Disposals/write off	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Depreciation	**–**	**(27)**	**(95)**	**(1,088)**	**(900)**	**(300)**	**(2,410)**
Exchange realignment	**(14,795)**	**–**	**(1)**	**(9)**	**(73)**	**(13)**	**(14,891)**
Closing carrying amount	**369,893**	**618**	**107**	**597**	**1,744**	**556**	**373,515**
At 31 December 2018							
Cost	**667,797**	**1,100**	**1,932**	**6,352**	**16,776**	**4,829**	**698,786**
Accumulated depreciation	**–**	**(482)**	**(1,825)**	**(5,755)**	**(15,032)**	**(4,273)**	**(27,367)**
Accumulated impairment loss	**(297,904)**	**–**	**–**	**–**	**–**	**–**	**(297,904)**
Net carrying amount	**369,893**	**618**	**107**	**597**	**1,744**	**556**	**373,515**

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

Depreciation expense of HK$120,000 (2017: HK$236,000) has been charged in "cost of sales" and HK$2,290,000 (2017: HK$2,440,000) in "administrative expenses".

Construction in progress as at 31 December 2018 and 2017 mainly comprised hotel units being constructed in the PRC, which were pledged to secure borrowings granted to the Group (note 30).

At 31 December 2018, the Group's leasehold land classified as finance lease and building with a net carrying amount of HK$618,000 (2017: HK$645,000) were pledged to secure borrowings granted to the Group (note 30).

15. LAND USE RIGHTS

Land use rights represent prepaid operating lease payments and their net carrying amount are analysed as follows:

	2018 **HK$'000**	2017 HK$'000
At 1 January	**77,273**	79,285
Amortisation	**(8,153)**	(7,978)
Exchange realignment	**(3,578)**	5,966
At 31 December	**65,542**	77,273

During the year, the Group capitalised amortisation of land use rights amounted to HK$8,153,000 (2017: HK$7,978,000) to construction in progress (note 14).

15. LAND USE RIGHTS *(Continued)*

At 31 December 2018 and 2017, the Group's land use rights were pledged to secure borrowings granted to the Group (note 30).

At 31 December 2018, the carrying amount of land use rights is HK$65,542,000 (2017: HK$77,273,000), of which included accumulated impairment loss of HK$181,342,000 (2017: HK$190,952,000).

16. INVESTMENT PROPERTIES

	2018 **HK$'000**	2017 HK$'000
At fair value		
At 1 January	**270,819**	256,868
Capitalised expenditures	**1,647**	–
Fair value loss	**–**	(6,070)
Exchange realignment	**(13,692)**	20,021
At 31 December	**258,774**	270,819

An independent valuation of the Group's investment properties was performed by the valuer, RHL Appraisal Limited, to determine the fair values of the investment properties as at 31 December 2018 and 2017. For the year ended 31 December 2018, no significant changes in fair values of the investment properties are recorded (2017: revaluation loss was included in "fair value loss on investment properties") in the consolidated statement of profit or loss.

17. INVESTMENTS IN SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ operations and form of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Percentage of ownership interest 2018	Percentage of ownership interest 2017	Principal activities
Adore Capital Limited	British Virgin Islands ("BVI")/Hong Kong, limited liability company	United States dollars ("US$") 1	100	100	Investment holding
Brilliant Field Corporation Limited ("Brilliant Field")	Hong Kong, limited liability company	HK$1	100	100	Investment holding
Mandarin Films Limited	Hong Kong, limited liability company	HK$1	100	100	Provision of management services
Grimston Limited	BVI/Hong Kong, limited liability company	US$10,000	100	100	Investment holding
Handful Cotton (Piecegoods) Company Limited	Marshall Islands/ Hong Kong, limited liability company	US$1	100	100	Investment holding
Mandarin Films Distribution Company Limited	Hong Kong, limited liability company	HK$20 ordinary shares and HK$10,000,000 non-voting deferred shares (note)	100	100	Distribution of films produced or purchased by the Group
Mandarin Laboratory (International) Limited	Hong Kong, limited liability company	HK$1,000,000	100	100	Film processing

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operations and form of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Percentage of ownership interest 2018	2017	Principal activities
Mandarin Films Library Limited	Hong Kong, limited liability company	HK$1	**100**	100	Films licensing
Cheung Wo (Hunan) Property Limited ("Cheung Wo (Hunan)")	BVI/Hong Kong, limited liability company	US$1	**100**	100	Investment holding
Vast Build Limited	BVI/Hong Kong, limited liability company	US$1	**100**	100	Investment holding
Sino Step Inc. ("Sino Step")	BVI/Hong Kong, limited liability company	US$99	**100**	100	Investment holding
Walsbo Limited	Hong Kong, limited liability company	HK$2 ordinary shares and HK$9,800 non-voting deferred shares (note)	**100**	100	Investment holding
Elite State Developments Limited	BVI/Hong Kong, limited liability company	US$1	**100**	100	Investment holding
Profit Source International Limited ("Profit Source")	Hong Kong, limited liability company	HK$2	**100**	100	Investment holding
成都中發黃河實業有限公司^ (Chengdu Zhongfa Real Estate Development Co. Ltd.) ("Chengdu Zhongfa")	PRC, limited liability company	Renminbi ("RMB") 176,000,000	**100**	100	Property holding

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operations and form of legal entity	Nominal value of issued and fully paid share capital/ registered capital	Percentage of ownership interest 2018	Percentage of ownership interest 2017	Principal activities
Prosper China Limited	BVI/Hong Kong, limited liability company	US$100	**100**	100	Investment holding
湖南九華國際新城開發建設有限公司^(Hunan Jiuhua International City Development Construction Company Limited) ("Hunan Jiuhua")	PRC, limited liability company	RMB342,041,272 (2017: RMB260,000,000)	**100**	100	Property development
湖南九華東方酒店有限公司^ (Hunan Jiuhua Dong Fang Hotel Company Limited) ("Dong Fang Hotel")	PRC, limited liability company	RMB300,000,000 (2017: RMB200,000,000)	**100**	100	Hotel development

Note: Those deferred shares practically carry no rights to dividends or to receive notice to attend or vote at any general meeting of the Company or to participate in any distribution on winding up.

^ Chengdu Zhongfa, Hunan Jiuhua and Dong Fang Hotel are registered as wholly-foreign-owned enterprises under the PRC law.

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

The Company directly holds the interests in Adore Capital Limited, Elite State Developments Limited, Grimston Limited, Sino Step, Cheung Wo (Hunan) and Vast Build Limited. All other interests shown above are held indirectly.

18. INVESTMENTS IN ASSOCIATES

	2018	2017
	HK$'000	HK$'000
Unlisted investments:		
Share of net assets/(liabilities)	**218,353**	(436)
Goodwill	**1,040,373**	1,040,373
Loan to an associate	**1,150**	1,139
Accumulated impairment loss	**(621,559)**	(395,536)
	638,317	645,540

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Directors, the loan is considered as quasi-equity investments in associates.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2018	2017
	HK$'000	HK$'000
Share of profits	**2,564**	1,008

Set out below are the associates of the Group as at 31 December 2018, which, in the opinion of the Directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held indirectly by the Company.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Particulars of the Group's investments in associates at 31 December 2018 and 2017 are as follows:

Name of entity	Place of incorporation/ operations and form of legal entity	Particulars of issued share capital	Percentage of ownership interest and voting power held indirectly		Principal activities
			2018	2017	
Talent Films (note a)	Hong Kong, limited liability company	HK$10,000	35	35	Production and distribution of film
Ever-Grand (note b)	BVI/PRC, limited liability company	100 ordinary shares of US$1 each	49	49	Construction and operation of steam heat distribution system
Shanghai Jiaguan (note c)	PRC, limited partnership	RMB1,150,010,000	16.52	N/A	Debt investment

There are no contingent liabilities relating to the Group's associates.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised financial information on the associates

The following table shows information on the associates that are material to the Group. These associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRSs financial statements of the associates.

	Talent Films		Ever-Grand		Shanghai Jiaguan		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
At 31 December:								
Non-current assets	**5**	5	**13,223**	11,680	**–**	–	**13,228**	11,685
Current assets	**3,385**	3,404	**9,448**	3,247	**1,311,341**	–	**1,324,174**	6,651
Non-current liabilities		–	**–**	–	**–**	–	**–**	–
Current liabilities	**(8,093)**	(8,104)	**(17,441)**	(16,002)	**(5,170)**	–	**(30,704)**	(24,106)
Net assets/(liabilities)	**(4,703)**	(4,695)	**5,230**	(1,075)	**1,306,171**	–	**1,306,698**	(5,770)
Non-controlling interest's ("NCI's") share of net assets/(liabilities)	**–**	–	**(1,095)**	184	**–**	–	**(1,095)**	184
Net assets/(liabilities) excluding NCI's portion	**(4,703)**	(4,695)	**4,135**	(891)	**1,306,171**	–	**1,305,603**	(5,586)
Group's share of net assets/(liabilities)	**–**	–	**2,026**	(436)	**216,327**	–	**218,353**	(436)
Loan to an associate	**–**	–	**1,150**	1,139	**–**	–	**1,150**	1,139
Goodwill	**–**	–	**1,040,373**	1,040,373	**–**	–	**1,040,373**	1,040,373
Accumulated impairment loss	**–**	–	**(621,559)**	(395,536)	**–**	–	**(621,559)**	(395,536)
Group's share of carrying amount of interests	**–**	–	**421,990**	645,540	**216,327**	–	**638,317**	645,540

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised statement of profit or loss and other comprehensive income

	Talent Films		Ever-Grand		Shanghai Jiaguan		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	**–**	–	**43,958**	24,267	**90,382**	–	**134,340**	24,267
Profit for the year	**–**	–	**6,557**	2,572	**85,548**	–	**92,105**	2,572
Other comprehensive income for the year	**–**	–	**(207)**	(70)	**–**	–	**(207)**	(70)
Total comprehensive income for the year	**–**	–	**6,350**	2,502	**85,548**	–	**91,898**	2,502

The information above reflects the amounts presented in the financial statements of the associates (and not the Company's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

As at 31 December 2018, the cash and cash equivalents of the Group's associates in the PRC denominated in RMB amounted to HK$9,227,000 (2017: HK$3,052,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Notes:

(a) In accordance with the shareholders agreement dated 21 June 2010 entered into between the Group and Filmko International Limited, the Group's profit sharing ratio to Talent Films' profit is 35%.

(b) On 16 November 2015, the Group entered into a formal sale and purchase agreement with Sky-Linked International Limited (the "Vendor"), pursuant to which the Group acquired 49% of the entire issued share capital of Ever-Grand, at the consideration of HK$882,000,000 which will be satisfied by: (i) HK$60,000,000 in cash; and (ii) HK$822,000,000 by way of issuing of convertible notes in the same principal amount (Note 31).

Ever-Grand holds 80% equity interest in Dongguan City Dejin Energy Technology Company Limited and Dongguan City Dejin Thermal Power Company Limited, which are engaged in an energy-saving environmental protection project through the provision of steam and heat produced at a power plant in Dongguan City to industrial customers in certain areas of Humen and Changan in Dongguan City, Guangdong Province. The acquisition was completed on 30 March 2016.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

For impairment assessment, the Group had estimated the value in use of Ever-Grand, based on the share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operation of the associate and the proceeds from the ultimate disposal of the investment. For the year ended 31 December 2018, due to further delay in pipeline construction, an impairment loss of HK$226,023,000 (2017: HK$246,862,000) was recognised in profit or loss. The pre-tax discount rate used was 19.1% (2017: 21.0%).

The investment in Ever-Grand was included in the segment of "centralised heat supply".

(c) On 8 February 2018, Chengdu Zhongfa, an indirect wholly-owned subsidiary of the Group, entered into a Limited Partnership Agreement with other unrelated partners in relation to the capital contributions and management of Shanghai Jiaguan Tianqi Investment Centre (Limited Partnership) ("Shanghai Jiaguan"/the "Partnership"). The intended investment project of the Partnership is to acquire restructured debts from Anhui Guohou Finance Assets Management Company Limited.

On the same date, Nanjing Jin Gao Real Estate Company Limited ("Nanjing Jin Gao"), a related party to the Group entered into a Loan Agreement, pursuant to which, Nanjing Jin Gao has agreed to make an unsecured interest-free loan in the amount of RMB190,000,000 (equivalent to approximately HK$236,440,000) available to Chengdu Zhongfa from 9 February 2018 for a term of two years to fund its capital commitment to the Partnership. For details, refer to the Group's announcement on 9 February 2018. The loan was fully repaid during 2018.

At 31 December 2018, Chengdu Zhongfa holds 16.52% equity interest in Shanghai Jiaguan under the category of a Second Deferred Limited Partner. According to the Limited Partnership Agreement, Chengdu Zhongfa is not entitled to any fixed return but is entitled to the remainder of the Partnership after distribution. As disclosed in note 5.1(a), the management determined to account for the investment in Partnership as an interest in associate, due to the participation in policy-making processes through its voting right that contributes to significant influence to the associate.

For impairment assessment, the Group had estimated the fair value of Shanghai Jiaguan based on the Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. Some of the key inputs used by the Company in its Monte Carlo simulation include underlying asset value, investment horizon, coupon rate, volatility, required returns, risk free rate and return on assets.

19. OTHER FINANCIAL ASSETS/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Financial assets at FVTPL		
Unlisted equity investment		
– GLC Fund (note a)	110,000	–
Available-for-sale financial assets		
Unlisted equity investments		
– GLC Fund (note a)	–	105,050
– Broad World (note b)	–	62,672
	–	167,722

Notes:

(a) On 14 December 2015, the Group's indirectly wholly-owned subsidiary, Prosper China Limited ("Prosper China"), had committed to make an investment of HK$110,000,000 in the GLC Fund, by way of a subscription for a limited partnership interest in the GLC Fund, which is registered under the Exempted Partnership Law (as amended) of the Cayman Islands. As at 31 December 2018 and 2017, Prosper China has contributed HK$105,050,000 to the GLC Fund.

The Fund has a term of eight years from the date of initial closing. Purpose of the Fund is to generate financial returns and achieve long-term appreciation through debt and/or equity investments in private companies.

On 26 March 2018, Grimston Limited as vendor, the Group's directly wholly-owned subsidiary, entered into a sale and purchase agreement with Circle Prosper Limited as purchaser to dispose of 100% equity interests in Prosper China which beneficially holds the investment in the GLC Fund at a consideration of HK$110,000,000. As at 31 December 2018, the disposal transaction is incomplete.

Further to as disclosed in note 3, the Group has reclassified the GLC Fund from available-for-sale financial assets to FVTPL upon initial application of HKFRS 9. For the year ended 31 December 2018, the GLC Fund is measured at fair value with the change in fair value recorded in profit or loss, if any.

For the year ended 31 December 2017, the GLC Fund was stated at cost less accumulated impairment loss (if any) because the range of reasonable fair value estimates is so significant that the Directors consider that its fair value cannot be measured reliably. The Directors considered that no impairment was required for the investment in the GLC Fund as at 31 December 2017.

19. OTHER FINANCIAL ASSETS/AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Notes: *(Continued)*

(b) On 26 March 2018, Elite State Developments Limited as vendor, the Group's directly wholly-owned subsidiary, entered into a sale and purchase agreement with Force Hasting Limited as purchaser to disposal of 19% equity interest in Broad World at a consideration of HK$65,000,000. The disposal transaction was completed on 20 December 2018.

For the year ended 31 December 2017, the investment in Broad World was stated at cost less accumulated impairment loss (if any) because the range of reasonable fair value estimates is so significant that the Directors consider its fair value cannot be measured reliably. The Directors considered that no impairment was required for the investment in Broad World as at 31 December 2017.

20. PROPERTIES FOR SALE OR UNDER DEVELOPMENT

	2018		2017	
	Properties under development HK$'000	Properties for sale HK$'000	Properties under development HK$'000	Properties for sale HK$'000
At 1 January	1,000,637	7,147	1,035,652	–
Additions	52,175	120,883	120,226	50,483
Transfer to properties for sale	(120,883)	–	(50,483)	–
Transfer to cost of properties sold (note 9)	–	(59,981)	–	(43,578)
Written down	(32,310)	–	(181,074)	–
Exchange realignment	(60,526)	(2,683)	76,316	242
At 31 December	839,093	65,366	1,000,637	7,147
Properties for sale or under development comprise:				
Land use rights	719,466	18,290	730,924	1,974
Construction costs and capitalised expenditures	107,503	29,706	183,467	2,992
Finance costs capitalised	12,124	17,370	86,246	2,181
	839,093	65,366	1,000,637	7,147
Amounts are expected to be completed:				
Within the normal operating cycle included under current assets	839,093	N/A	1,000,637	N/A

20. PROPERTIES FOR SALE OR UNDER DEVELOPMENT *(Continued)*

At 31 December 2018, the Group's land use rights included in the properties under development with a carrying amount of HK$452,273,000 (2017: HK$476,240,000) was pledged to secure certain borrowings granted to the Group (note 30).

The carrying amount of the properties under development expected to be completed and available for sale after more than twelve months from 31 December 2018 amounted to HK$680,980,000 (2017: HK$864,391,000).

Included in properties under development is a parcel of land located at Jiuhua Economic Development Zone, Xiangtan City, Hunan Province, the PRC ("Xiangtan Phase II Project") with carrying amount of approximately HK$452,273,000 (2017: HK$476,240,000) as at 31 December 2018. Pursuant to the land grant agreements (the "Land Grant Agreements") dated 29 September 2013 entered into between Hunan Jiuhua and Xiangtan City Land Resources Bureau (the "Land Vendor"), if Hunan Jiuhua fails to develop the land in accordance with the prescribed period of time stipulated in the Land Grant Agreements, the Land Vendor can issue an order to confiscate the land whilst imposing certain penalties to Hunan Jiuhua.

Due to incomplete resident relocation compensation process caused by the government, the governing agent of the relevant land has not yet launched the idle land investigation process. Based on the Group's PRC legal counsel, the Directors are of the opinion that the risk of the relevant land being classified as idle land and/or subject to penalty by the relevant government agent is relatively low. The Directors consider no penalty provision in respect of land is required to be recognised as at 31 December 2018 and 2017.

21. TRADE AND RENTAL RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**149**	2,768
Less: ECL allowance/loss allowance	**(69)**	(69)
Trade receivables – net	**80**	2,699
Rental receivables	**15,341**	12,626
Less: ECL allowance/loss allowance	**(5,236)**	–
Rental receivables – net	**10,105**	12,626
	10,185	15,325

The carrying amounts of trade and rental receivables approximate their fair values.

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 to 120 days. Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customers. Credit limits attributed to customers are reviewed regularly.

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

	2018 HK$'000	2017 HK$'000
0 – 90 days	**80**	2,699
	80	2,699

21. TRADE AND RENTAL RECEIVABLES *(Continued)*

Movements in the ECL allowance (2017: loss allowance) of trade receivables are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	69	109
Reversal of provision for impairment of trade receivables (note 9)	–	(40)
At 31 December	69	69

Movements in the ECL allowance (2017: loss allowance) of rental receivables are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	–	–
Provision for impairment of rental receivables	5,443	–
Exchange realignment	(207)	–
At 31 December	5,236	–

The carrying amounts of the trade and rental receivables are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	80	77
RMB	10,105	15,248
	10,185	15,325

22. DEPOSITS FOR LAND ACQUISITION

Deposits for land acquisition arise from the acquisition of land in the PRC. These deposits would be converted into land use rights when the rights to use the lands have been obtained. The carrying amounts of the Group's deposits for land acquisition are mainly denominated in Renminbi.

23. PREPAYMENTS AND OTHER RECEIVABLES

	Note	2018 HK$'000	2017 HK$'000
Prepayment for construction costs	(i)	–	1,025
Other prepayments		23,571	11,491
Other receivables		10,223	25,652
Utility and other deposits		2,910	1,577
		36,704	39,745
Less: current portion		(35,259)	(38,365)
Non-current portion		1,445	1,380

Note:

(i) The balance represents prepayments to subcontractors in the PRC relating to the construction project of the Group in Hunan for developing the residential properties and hotel.

The carrying amounts of other receivables approximate their fair values as the impact of discounting is not significant.

None of the other receivables is either past due or impaired. Other receivables included in the above balances had no recent history of default.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Contingent consideration receivable, at fair value	110,136	148,117
Less: current portion	(110,136)	(52,892)
Non-current portion	–	95,225

The carrying amounts of the above financial assets are designated as at fair value through profit or loss on initial recognition.

During the year ended 31 December 2016, the Group acquired 49% equity interest in Ever-Grand, details of which are set out in note 18(b). Pursuant to the sale and purchase agreement entered into among the Company, the Vendor, Mr. Cheng Ngok Fai (the "Guarantor C") and Mr. Li Ruiguang (the "Guarantor L"), the Vendor, Guarantor C and Guarantor L jointly guarantee to the Company that the audited consolidated annual net profit of Ever-Grand after tax (exclusive of non-recurring profits) attributable to the Company (referred to as "Ever-Grand Net Profit") for the relevant years shall not be less than the following amounts:

Relevant year	**Guaranteed consolidated audited profit after tax**
1 January 2016 to 31 December 2016	HK$24,500,000
1 January 2017 to 31 December 2017	HK$53,900,000
1 January 2018 to 31 December 2018	HK$112,700,000

As at 31 December 2018, the fair value of the contingent consideration receivable is HK$110,136,000, representing the difference between the guaranteed consolidated audited profit after tax and Ever-Grand Net Profit in 2018.

As at 31 December 2017, the fair value of the contingent consideration receivable was HK$148,117,000. The fair value was estimated by the discounted cash flows of the expected income streams derived from Ever-Grand Net Profit in 2017and 2018.

25. RESTRICTED BANK DEPOSITS

	Notes	2018 HK$'000	2017 HK$'000
Guarantee deposits for construction of pre-sale properties	(i)	**7,007**	12,345
Restricted use bank deposits	(ii)	**1,328**	11,723
Pledged bank deposits	(ii)&30	**228**	–
		8,563	24,068

Notes:

(i) In accordance with the Administration of Pre-sale of Commodity Premises Regulations in the PRC, the Group is required to place in designated bank accounts certain amount of pre-sale proceeds of properties as guarantee deposits for construction of related properties. The deposits can only be used for purchases of construction materials and the payments of construction costs of the relevant property project when approval from PRC State-Owned Land Resources and Housing Administrative Bureau is obtained. Such restriction will be released after completion of related pre-sale properties.

(ii) As at 31 December 2018, pursuant to a bank account co-administration agreement signed between a subsidiary of the Company and an independent lender, who provides loan facilities as disclosed in note 30, the usage of pledged bank deposits of HK$1,556,000 (2017: HK$11,723,000) is restricted until a consent from the lender is obtained, HK$1,208,000 (2017: HK$4,547,000) of which is also guarantee deposits for construction of pre-sale properties.

As at 31 December 2018, the restricted bank deposits of the Group denominated in RMB amounted to HK$8,563,000 (2017: HK$24,068,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**5,847**	7,645

The carrying values of cash and cash equivalents approximate their fair values.

26. CASH AND CASH EQUIVALENTS *(Continued)*

At 31 December 2018, cash and bank balances of the Group denominated in RMB amounted to HK$3,497,000 (2017: HK$5,361,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**1,676**	2,264
RMB	**3,497**	5,361
US$	**638**	19
Other currencies	**36**	1
	5,847	7,645

27. TRADE PAYABLES

At 31 December 2018, the ageing analysis of the trade payables, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
0 – 90 days	**29,590**	44,572
91 – 180 days	**5**	80
181 – 365 days	**974**	125
Over 1 year	**697**	806
	31,266	45,583

27. TRADE PAYABLES *(Continued)*

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**44**	44
RMB	**31,222**	45,539
	31,266	45,583

28. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2018 HK$'000	2017 HK$'000
Other payables	**247,224**	149,349
Accruals	**4,673**	4,334
Accrued interest expense	**8,281**	22,147
Proceeds received from pre-sale of properties	**–**	148,033
Deposits received in advance	**13,479**	3,409
	273,657	327,272
Less: non-current portion	**(2,562)**	(2,698)
Current portion	**271,095**	324,574

The carrying amounts of the other payables, accruals and deposits received approximate to their fair value.

29. CONTRACT LIABILITIES

The amount represents deposits and installments received on properties sold to independent third parties after issuance of pre-sale certificates by local government authorities. As disclosed in note 3.1, this amount was previously presented in the "other payables, accruals and deposits received" as at 31 December 2017. During the year, the Group has recognised revenue of HK$61,365,000 from this balance as at the beginning of the reporting period.

30. BORROWINGS

	Maturity	2018 HK$'000	2017 HK$'000
Current			
Bank borrowings – secured (note i)	On demand	**178**	406
Bank borrowings – secured (note ii)	April 2021	**43,396**	33,610
Entrusted bank borrowings – secured (note iii)	July 2020	**74,007**	29,972
Other borrowings – secured (note iv)	January 2021	**32,903**	–
Bank borrowings – secured (note v)	September 2019	**171**	–
Other borrowings – secured (note vi)	January 2018	**–**	156,160
Bank overdraft – secured (note vii)	On demand	**2,985**	2,468
Borrowings from a former shareholder – unsecured (note viii)	February 2019	**13,500**	15,828
Borrowings from a shareholder (note ix)	March 2018	**–**	1,863
Other borrowings – unsecured (note x)	On demand	**52,494**	66,371
Other borrowings – unsecured (note xi)	On demand	**490**	–
Other borrowings – unsecured (note xii)	March 2019	**116,144**	–
Other borrowings – unsecured (note xii)	November and December 2019	**141,700**	–
		477,968	306,678
Non-current			
Bank borrowings – secured (note ii)	April 2021	**100,961**	152,668
Entrusted bank borrowings – secured (note iii)	July 2020	**119,549**	203,812
Other borrowings – secured (note iv)	January 2021	**263,222**	–
		483,732	356,480
		961,700	663,158

The Group's borrowings are repayable as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year or on demand	**477,968**	306,678
Between 1-2 years	**208,027**	124,009
Between 2-5 years	**275,705**	232,471
	961,700	663,158

30. BORROWINGS *(Continued)*

Notes:

(i) At 31 December 2018, the Group's bank borrowings of HK$178,000 (2017: HK$406,000) were secured by the leasehold land and buildings (note 14) with a net carrying amount of HK$618,000 (2017: HK$645,000) and was interest-bearing at prime rate minus 1.5% per annum (2017: 1.5%).

(ii) At 31 December 2018, the Group's bank borrowings of HK$144,357,000 (2017: HK$186,278,000) were secured by the Group's land use rights (note 15) and construction in progress (note 14) with a net carrying amount of HK$65,542,000 (2017: HK$77,273,000) and HK$369,893,000 (2017: HK$136,638,000) respectively. According to the repayment terms, the bank borrowings will be repayable by instalments from 2016 to 2021. The bank borrowings were interest-bearing per annum at the benchmark interest rate determined by the People's Bank of China for loans over 5 years granted by financial institutions (2017: same).

(iii) At 31 December 2018, the Group's entrusted bank borrowings of HK$193,556,000 (2017: HK$233,784,000) were secured by the Group's properties under development (note 20) with a net carrying amount of HK$452,273,000 (2017: HK$476,240,000). According to the repayment terms, the entrusted bank borrowings will be repayable by instalments from 2017 to 2020. The entrusted bank borrowings were interest-bearing at 9% per annum (2017: 9%).

(iv) At 31 December 2018, the Group's other borrowings of HK$296,125,000 were interest bearing at 8% per annum and will be repayable by instalments from 2018 to 2021. The other borrowings were secured and guaranteed by:

(a) equity interests in three subsidiaries of the Group including Brilliant Field and Profit Source;

(b) first fixed charge over 1,512,351,197 shares of the Company owned by Keyne Holdings Limited, the substantial shareholder of the Company. The controlling shareholder of this company is Mr. Zhu Boheng;

(c) a fixed charge over a bank account with zero amount as at 31 December 2018;

(d) corporate guarantees executed by three related companies, Ever Harmony Enterprises Limited, Yangzhou Ya Tai Zhi Ye Company Limited and Nanjing Jin Gao Real Estate Development Company Limited* (南京金高房地產開發有限公司). The controlling shareholder of these companies is Mr. Peter Zhu (a spouse of Ms. Qian Ling Ling);

(e) personal guarantee executed by Ms. Qian Ling Ling (a director of the Company), Mr. Peter Zhu (a spouse of Ms. Qian Ling Ling) and Mr. Zhu Boheng (the controlling shareholder of the Company).

(v) At 31 December 2018, the Group's bank borrowings of HK$171,000 borne variable interest rate, the interest rate as at 31 December 2018 was 4.30% per annum. The bank borrowings were secured by the Group's bank deposits of HK$228,000 (note 25) and will be repayable in September 2019.

30. BORROWINGS *(Continued)*

Notes: *(Continued)*

(vi) At 31 December 2017, the Group's other borrowing of HK$156,160,000 were interest-bearing at 20% per annum. The other borrowings were repaid in January 2018.

The other borrowings were secured and guaranteed by:

(a) share charges over certain subsidiaries of the Group, namely Cheung Wo (Hunan), Brilliant Field, Sino Step, Profit Source and Chengdu Zhongfa. At 31 December 2017, the aforementioned subsidiaries held properties, plant and equipment, land use rights, investment properties, prepayment and other receivables, properties for sale or under development, trade and rental receivables, restricted bank deposits and cash and cash equivalents, amounted to HK$138,979,000, HK$77,273,000, HK$270,819,000, HK$37,760,000, HK$1,007,784,000 HK$15,249,000, HK$24,068,000 and HK$5,391,000 respectively;

(b) inter-companies loans, amounted to HK$3,505,252,000;

(c) a personal guarantee executed by Mr. Cheng Keung Fai ("Mr. Cheng"), a former shareholder of the Company.

During the year ended 31 December 2017, the Group was subject to certain financial covenants under this other borrowings.

(vii) At 31 December 2018, the Group's bank overdraft of HK$2,985,000 (2017: HK$2,468,000) was secured by the leasehold land and buildings (note 14) with a net carrying amount of HK$618,000 (2017: HK$645,000) and carried floating-rate interest based on the Prime Rate minus 1% per annum (2017: 1%).

(viii) At 31 December 2018, the Group's borrowings from a former shareholder were unsecured and non-interest bearing. Subsequent to the reporting period, the maturity date of the borrowings was extended from February 2019 to May 2019.

(ix) At 31 December 2017, the Group's borrowings from a shareholder were unsecured, non-interest bearing and repaid in February 2018.

(x) At 31 December 2018, the Group's other borrowings from related parties (note 40(i)) were interest-free, unsecured and repayable on demand.

(xi) At 31 December 2018, the Group's other borrowings were interest-free, unsecured and repayable on demand.

30. BORROWINGS *(Continued)*

Notes: *(Continued)*

(xii) At 31 December 2018, the Group's other borrowings of HK$257,844,000 were unsecured, interest bearing at 5%-10% per annum and will be repayable in March, November and December 2019 respectively. The other borrowings were guaranteed by:

(a) personal guarantee executed by Mr. Zhu Boheng (the controlling shareholder of the Company), Ms. Qian Ling Ling (a director of the Company), Mr. Peter Zhu (a spouse of Ms. Qian Ling Ling) and Mr. Zhang Li (a director of the Company); and

(b) a corporate guarantee executed by Shanghai Jindadi Investment Co., Ltd.* (上海金大地投資有限公司). The controlling shareholder of this company is Mr. Zhu Boheng.

* For identification purpose only

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2018 **HK$'000**	2017 HK$'000
HK$	**16,663**	18,237
RMB	**391,068**	486,433
US$	**553,969**	158,488
	961,700	663,158

The carrying amounts of the Group's current interest-bearing bank borrowings approximate to their fair values, as the impact of discounting is not significant. The fair value of the non-current bank borrowings of HK$193,807,000 (2017: HK$297,838,000) are based on cash flows discounted using a rate based on the borrowing rate of 6.7% and 9% (2017: 6.4% and 9%) and are within Level 2 of the fair value hierarchy.

31. CONVERTIBLE NOTES

On 30 March 2016, the Company issued convertible notes carrying at zero coupon rate of an aggregate principal amount of HK$822,000,000. The notes are convertible at the option of the noteholders into fully paid ordinary shares with a par value of HK$0.01 each at any time from the date of the issue of the notes up to and including 30 September 2019 at an initial conversion price of HK$0.80 (subject to anti-dilutive adjustments). Any convertible notes not converted would be redeemed on 30 September 2019 at face value of the principal amount.

(a) The convertible notes recognised at initial recognition on 30 March 2016 were calculated as follows:

	HK$'000
Fair value of convertible notes issued	973,202
Equity component	(435,900)
Liability component	537,302

(b) Movements of the liability component of the convertible notes during the year are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	**134,911**	136,828
Redemption (note (c))	**(44,983)**	(18,250)
Interest expense (note 8)	**14,123**	16,333
At 31 December	**104,051**	134,911

On 31 May 2018, as a result of the non-fulfillment of the profit guarantee given by the Vendor pursuant to the sale and purchase agreement, details of which are set out in note 24, certain convertible notes held in escrow on behalf of the Vendor were used to settle the Amount in Difference as defined in note (c) below in this respect. Accordingly, convertible notes with principal amount of HK$52,892,000 were cancelled and accounted for as an early redemption, details of which are set in note (c) below.

For the year ended 31 December 2018, interest expense on the liability component of the convertible notes is calculated using the effective interest method, applying the effective interest rate of 12.9% per annum to the liability component.

31. CONVERTIBLE NOTES *(Continued)*

(c) As mentioned in note 24, pursuant to the sale and purchase agreement entered into among the Company, the Vendor, Guarantor C and Guarantor L, the Vendor, Guarantor C and Guarantor L jointly provided a profit guarantee to the Company subject to conditions in relation to the audited consolidated annual net profit of Ever-Grand after tax (exclusive of non-recurring profits) attributable to the Company (referred to as "Ever-Grand Net Profit") for the relevant years set out as follows:

Relevant year	**Guaranteed consolidated audited profit after tax**
1 January 2016 to 31 December 2016	HK$24,500,000
1 January 2017 to 31 December 2017	HK$53,900,000
1 January 2018 to 31 December 2018	HK$112,700,000

If the Ever-Grand Net Profit for any of the 3 relevant years falls below the above guaranteed amount for the relevant years, the Vendor shall pay to the Company, on 31 May after the end of the relevant years, an amount equal to the difference between the guaranteed consolidated audited profits after tax for the relevant years and the Ever-Grand Net Profit for the same year ("Amount in Difference"). If the Vendor fails to pay to the Company, the Company shall be entitled to either (i) set-off the Amount in Difference by cancelling the same principal amount of convertible notes or (ii) if the convertible notes have been converted into shares, irrevocably be authorised by the Vendor to sell the converted shares at the then market trading price and use the proceeds to settle the Amount in Difference. In the meantime, convertible notes with principal amount of HK$191,100,000 which is equivalent to the aggregate guaranteed consolidated audited profits after tax for the 3 relevant years will be held under escrow to serve as a safeguard to the Company or pledged to the Company or any of its nominees until 31 May 2019.

The Ever-Grand Net Profit for the year of 2017 was HK$1,008,000, which was less than the guaranteed consolidated audited profit after tax as mentioned above and led to Amount in Difference to be HK$52,892,000. Since the Vendor did not pay the Amount in Difference, the Company decided to set off the Amount in Difference by cancelling the same principal amount of convertible notes. Such cancellation of convertible notes was accounted for as an early redemption and resulted in a loss on redemption as described below.

31. CONVERTIBLE NOTES *(Continued)*

(c) *(Continued)*

The consideration payable is the Amount in Difference, which was allocated to the liability and equity component of the convertible notes. An amount of HK$45,345,000 was allocated to the liability component, being calculated as the fair value of the liability extinguished measured using a current market interest rate for a similar liability that does not have an equity conversion option. A difference of HK$362,000 between the consideration allocated to the liability component of HK$45,345,000 and the carrying amount of liability component of HK$44,983,000 is recognised in profit or loss for the year ended 31 December 2018. The residual consideration of HK$7,547,000 was allocated to the equity component and debited to the equity component of the convertible notes reserve.

(d) The Directors estimate the fair value of the liability component of the convertible notes at 31 December 2018 to be approximately HK$104,165,000 (2017: HK$136,893,000). This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

32. DEFERRED TAX LIABILITIES

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

	2018 HK$'000	2017 HK$'000
At 1 January	**164,372**	157,140
Charge/(Credit) for the year (note 11)	**640**	(5,151)
Exchange realignment	**(8,475)**	12,383
At 31 December	**156,537**	164,372

32. DEFERRED TAX LIABILITIES *(Continued)*

The movements of major components in the deferred tax liabilities during the year are as follows:

	Revaluation of land use rights HK$'000	Revaluation of investment properties HK$'000	Different bases in reporting revenue with tax authority HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 January 2017	112,947	40,634	3,466	93	157,140
Credit for the year	(4,591)	(530)	(30)	–	(5,151)
Exchange realignment	8,928	3,182	273	–	12,383
At 31 December 2017 and 1 January 2018	**117,284**	**43,286**	**3,709**	**93**	**164,372**
(Credit)/Charge for the year	**(781)**	**1,421**	**–**	**–**	**640**
Exchange realignment	**(6,055)**	**(2,233)**	**(187)**	**–**	**(8,475)**
At 31 December 2018	**110,448**	**42,474**	**3,522**	**93**	**156,537**

At 31 December 2018, the Group had unused tax losses in Hong Kong of approximately HK$114,615,000 (2017: HK$107,958,000) available indefinitely for offsetting against future taxable profits of the companies in which the losses arose; and unused tax losses in the PRC of HK$57,227,000 (2017: HK$50,648,000) available for offsetting against future profits of the PRC subsidiaries which will expire in 5 years. No deferred tax assets in respect of such losses has been recognised due to the unpredictability of future taxable profit streams.

33. SHARE CAPITAL

	2018 HK$'000	2017 HK$'000
Authorised:		
100,000,000,000 (2017: 100,000,000,000) ordinary shares of HK$0.01 (2017: HK$0.01) each	1,000,000	1,000,000
Issued and fully paid:		
3,568,790,629 (2017: 2,965,394,504) ordinary shares of HK$0.01 (2017: HK$0.01) each	35,688	29,654

A summary of the transactions during the current and prior year with reference to the movements in the Company's authorised and issued ordinary share capital is as follows:

	Notes	**Number of shares**	**Amount** HK$'000
Authorised:			
At 1 January 2017, 31 December 2017 and 2018		100,000,000,000	1,000,000
Issued and fully paid:			
At 1 January 2017		2,471,162,504	24,712
Shares placement	(a)	494,232,000	4,942
At 31 December 2017 and 1 January 2018		2,965,394,504	29,654
Exercise of share options	36	123,558,125	1,236
Shares placement	(b)	479,838,000	4,798
At 31 December 2018		3,568,790,629	35,688

Notes:

(a) On 17 July 2017, the Company completed a shares placement by issuing 494,232,000 ordinary shares of HK$0.01 each at a placing price of HK$0.24 per placing share.

(b) On 13 July 2018, the Company completed a shares placement by issuing 479,838,000 ordinary shares of HK$0.01 each at a placing price of HK$0.268 per placing share.

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	17	**6,174**	6,174
Property, plant and equipment		**467**	–
Financial assets at fair value through profit or loss	24	**–**	95,225
Total non-current assets		**6,641**	101,399
Current assets			
Prepayments and other receivables		**2,081**	444
Amounts due from subsidiaries		**1,257,095**	1,181,056
Financial assets at fair value through profit or loss	24	**110,136**	52,892
Cash and cash equivalents		**153**	274
Total current assets		**1,369,465**	1,234,666
LIABILITIES			
Current liabilities			
Other payables and accruals		**90,969**	104,067
Borrowings		**307,410**	176,725
Convertible notes	31	**104,051**	–
Total current liabilities		**502,430**	280,792
Net current assets		**867,035**	953,874
Total assets less current liabilities		**873,676**	1,055,273

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Statement of financial position of the Company *(Continued)*

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Borrowings		**263,222**	–
Convertible notes	31	**–**	134,911
Total non-current liabilities		**263,222**	134,911
Net assets		**610,454**	920,362
EQUITY			
Equity attributable to owners of the Company			
Issued share capital	33	**35,688**	29,654
Reserves		**574,766**	890,708
Total equity		**610,454**	920,362

Approved by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Qian Ling Ling
Director

Zhang Li
Director

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

	Notes	Share premium HK$'000	Contributed surplus HK$'000	Equity component of the convertible notes HK$'000	Share options reserve HK$'000	Warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017		1,880,674	503,119	101,339	39,804	211	(1,247,363)	1,277,784
Loss and total comprehensive income for the year		–	–	–	–	–	(492,348)	(492,348)
Issue of shares upon share placement	33	113,674	–	–	–	–	–	113,674
Shares issue expenses		(2,604)	–	–	–	–	–	(2,604)
Early redemption of convertible notes		–	–	(5,798)	–	–	–	(5,798)
Share options lapsed/ cancelled		–	–	–	(39,804)	–	39,804	–
Warrants lapsed		–	–	–	–	(211)	211	–
At 31 December 2017		1,991,744	503,119	95,541	–	–	(1,699,696)	890,708
Loss and total comprehensive income for the year		–	–	–	–	–	(495,213)	(495,213)
Issue of shares upon share placement	33	123,798	–	–	–	–	–	123,798
Shares issue expenses		(2,647)	–	–	–	–	–	(2,647)
Early redemption of convertible notes	31(c)	–	–	(7,547)	–	–	–	(7,547)
Share-based payments		–	–	–	25,633	–	–	25,633
Issue of shares upon exercise of share options		61,305	–	–	(21,271)	–	–	40,034
At 31 December 2018		2,174,200	503,119	87,994	4,362	–	(2,194,909)	574,766

35. RESERVES

(a) Group

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

(b) Nature and purpose of reserves

(i) Share premium

The share premium reserve represents the amount of the excess of issue price of the Company's shares over its par value.

(ii) Contributed surplus

The contributed surplus reserve comprises (i) HK$44,072,000 arising from the excess of the combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company in exchange thereof at the time of the Group reorganisation; and (ii) HK$459,047,000 arising from the Company's capital reorganisation on 6 September 2010 and 24 May 2012.

(iii) Equity component of the convertible notes

The equity component of the convertible notes represents the value of the unexercised equity component of the convertible notes issued by the Company in accordance with the accounting policy adopted for the convertible notes in note 4.11 to the consolidated financial statements.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4.4 to the consolidated financial statements.

35. RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(v) Special reserve

The special reserve represents (i) difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation in 2001 of HK$10,420,000 and (ii) the consideration for the acquisition of additional interests in jointly-controlled entities which became wholly-owned subsidiaries by the substantial shareholder of the Company prior to the group reorganisation of HK$7,506,000.

(vi) Share options reserve

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4.17 to the consolidated financial statements.

(vii) Warrants reserve

The warrants reserve represents warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments. The net proceeds received from the issue of warrants are recognised in this reserve. The warrants reserve will be transferred to share capital and share premium upon the exercise of the warrants. When the warrants still exist and not exercised at the expiry date, the amount previously recognised in the warrants reserve will be transferred to accumulated losses.

(viii) Other reserve

The other reserve represents the share of other comprehensive income of an associate.

(ix) Fair value reserve

The fair value reserve represents the change in fair value of the financial assets at fair value through other comprehensive income. Upon disposal of the financial assets, the amount previously recognised in the fair value reserve will be transferred to accumulated losses.

36. SHARE-BASED PAYMENTS

The Company has a share option scheme which was adopted on 2 September 2013 whereby the share options are granted to Directors, employees and certain eligible persons. The options have no vesting period and are exercisable in ten years from the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows:

	2018		2017	
	Number of options	**Weighted average exercise price HK$**	Number of options	Weighted average exercise price HK$
At 1 January	**–**	**–**	66,696,228	0.940
Granted and vested	**148,269,750**	**0.339**	–	–
Exercised	**(123,558,125)**	**0.334**	–	–
Cancelled/Lapsed	**–**	**–**	(66,696,228)	0.940
At 31 December	**24,711,625**	**0.362**	–	–
Exercisable at 31 December	**24,711,625**	**0.362**	–	–

The weighted average share price for share options exercised during the year at the date of exercise was HK$0.346 per share.

The share options outstanding at 31 December 2018 had exercise price of HK$0.362 per share (2017: Nil) and a weighted average remaining contractual life of approximately 9 years (2017: Nil).

On 23 January 2018, the Company granted 98,846,500 (2017: Nil) share options to certain of its directors, employees and an eligible participant for nil consideration at an exercise price of HK$0.362 (2017: Nil) per share.

On 29 March 2018, the Company granted 49,423,250 (2017: Nil) share options to eligible participants for nil consideration at an exercise price of HK$0.292 (2017: Nil) per share.

36. SHARE-BASED PAYMENTS *(Continued)*

The fair values of share options granted during 2018 were determined using the binomial valuation model that takes into account factors specific to the share incentive plans. The following principal assumptions were used in the valuation:

Grant date	**23 January 2018**	**29 March 2018**
Share price at date of grant	0.345	0.285
Exercise price	0.362	0.292
Number of options granted		
– directors	24,711,625	–
– employees and eligible participants	74,134,875	49,423,250
Risk free rate	2.021%	1.902%
Expected dividend yield	Nil	Nil
Expected volatility	85.64%	85.32%
Post-vesting exit rate	3.36%	3.36%
Expected exercise multiple		
– directors	2.80x	–
– employees and eligible persons	2.20x	2.20x
Fair value per option		
– directors	0.211	N/A
– employees and eligible persons	0.176	0.148

The underlying expected volatility was determined by reference to historical data, calculated based on expected life of share options. Expectations of early exercise were incorporated into the binomial valuation model. No special features pertinent to the options granted were incorporated into measurement of fair value.

In total, approximately HK$25,633,000 of share-based payments have been recognised in profit or loss for 2018 (2017: Nil) and the corresponding amount of which has been credited to share options reserve. No liabilities were recognised due to share-based payment transactions.

For the year ended 31 December 2017, no options were granted or exercised, and all of the share options were lapsed/cancelled during the year.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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.

	Borrowings (excluding bank overdraft) (note 30) HK$'000	Convertible notes – liability component (note 31) HK$'000	Total HK$'000
1 January 2017	694,704	136,828	831,532
Cash flows:			
Net repayment of borrowings	(78,694)	–	(78,694)
Interest expenses	5,446	–	5,446
Non-cash flows:			
Interest expenses	–	16,333	16,333
Redemption	–	(18,250)	(18,250)
Foreign exchange movement	39,234	–	39,234
31 December 2017 and 1 January 2018	**660,690**	**134,911**	**795,601**
Cash flows:			
Proceeds from borrowings	**1,027,084**	**–**	**1,027,084**
Repayment of borrowings	**(772,949)**	**–**	**(772,949)**
Interest expenses	**64,635**	**–**	**64,635**
Non-cash flows:			
Interest expenses	**–**	**14,123**	**14,123**
Redemption	**–**	**(44,983)**	**(44,983)**
Foreign exchange movement	**(20,745)**	**–**	**(20,745)**
31 December 2018	**958,715**	**104,051**	**1,062,766**

38. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment property under non-cancellable operating lease arrangements, with leases negotiated for terms ranging from 2 to 14 years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2018 **HK$'000**	2017 HK$'000
Within one year	**16,558**	20,561
Between two to five years	**65,831**	77,407
Over five years	**60,286**	91,216
	142,675	189,184

(b) As lessee

The Group leases certain of its office properties and equipment under non-cancellable operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 4 years.

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

	2018 **HK$'000**	2017 HK$'000
Within one year	**2,668**	4,117
Between two to five years	**3,570**	743
	6,238	4,860

39. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had capital commitments for the following expenditures in respect of:

	2018 HK$'000	2017 HK$'000
Contracted but not provided for:		
Property and hotel development	1,821,418	2,069,169
Land acquisition	457,261	–
Available-for-sale financial assets	–	4,950
	2,278,679	2,074,119

40. RELATED PARTY DISCLOSURES

(i) Related party transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the reporting period:

As disclosed in note 18(c), during the year ended 31 December 2018, Nanjing Jin Gao Real Estate Company Limited ("Nanjing Jin Gao"), a company controlled by Mr. Peter Zhu (a spouse of Ms. Qian Ling Ling (a director of the Company)), and Chengdu Zhongfa, an indirect wholly-owed subsidiary of the Company, entered into the Loan Agreement, pursuant to which, Nanjing Jin Gao has agreed to make an unsecured, interest-free loan in the amount of RMB190,000,000 (equivalent to approximately HK$236,440,000) available to Chengdu Zhongfa from 9 February 2018 for a term of 2 years. Pursuant to the Loan Agreement, the Loan will be used by Chengdu Zhongfa to fund its capital commitment to the Partnership. The loan has fully repaid during 2018.

During the year ended 31 December 2018, Full Dragon Group Limited, a former shareholder of the Company, entered into loan agreements with the Company of HK$13,500,000 (2017: US$300,000 and HK$13,500,000). Details of the terms and maturity date are disclosed in note 30(viii) to the consolidated financial statements.

During the year ended 31 December 2018, Jiangsu Jindadi Real Estate Development Co., Ltd.* (江蘇金大地房地產開發有限責任公司), Jiangsu Qichuang Trade Co., Ltd.* (江蘇企創貿易有限公司) and Yangzhou Atai Properties Co., Ltd.* (揚州亞太置業有限公司) entered into loan agreements with Hunan Jiuhua and Dong Fang Hotel, pursuant to which, Jiangsu Jindadi Real Estate Development Co., Ltd., Jiangsu Qichuang Trade Co., Ltd. and Yangzhou Atai Properties Co., Ltd. had agreed to make an interest-free loan in the amount of RMB46,106,000 (equivalent to approximately HK$52,494,000) available to Hunan Jiuhua and Dong Fang Hotel, which are disclosed in note 30(x) to the consolidated financial statements. The loan is unsecured and repayable on demand.

* *For identification purpose only*

40. RELATED PARTY DISCLOSURES *(Continued)*

(ii) Compensation of key management personnel

The Directors are the key management personnel of the Group. Details of their remunerations are disclosed in note 10(a) to the financial statements.

41. CONTINGENT LIABILITIES

According to Tax Circular 698 and Public Notice [2015] No. 7 ("Public Notice 7") of the State Administration of Taxation (the "SAT"), the Group's acquisition of 49% equity interest in Ever-Grand (note 18(b)) during the year ended 31 December 2016 had led to an indirect acquisition of subsidiaries of Ever-Grand in the PRC, including 東莞市德晉能源科技有限公司(Dongguan City Dejin Energy Technology Company Limited) and 東莞市德晉熱力有限公司(Dongguan City Dejin Thermal Power Company Limited). Such arrangement shall be re-characterised as a direct transfer by the PRC tax authorities and the capital gain derived by the Vendor will be subject to EIT. The Group should act as EIT withholding agent and report the indirect equity transfer (and settle the EIT, if applicable) to the PRC tax authorities within 30 days after the equity transfer agreement is concluded.

In case the Group fails to fulfill its withholding obligation and the Vendor, has not paid the EIT, the PRC tax authorities would demand the Vendor for the payment of EIT and impose penalty of 50% to 3 times of the unpaid EIT on the Group. The penalty may be relieved if the indirect transfer has been voluntarily reported to the PRC tax authorities by the Group.

The Company has already held back a sum of HK$60,000,000 payable to the Vendor to serve as withholding EIT and further made an EIT provision of HK$28,200,000, but has not yet reported the transaction or paid EIT to the PRC tax authorities. After consulting PRC legal counsel, the Directors are of the opinion that the Group has already substantially fulfilled the withholding obligation, thereby containing the risk of penalty to reasonably low level.

According to sale and purchase agreement dated 16 November 2015 entered into among the Company, the Vendor and the Guarantors, namely Guarantor C and Guarantor L, the Vendor is responsible for the filing and the settlement of the EIT arising from the indirect equity transfer in accordance to the relevant PRC tax laws and regulations. The Vendor shall compensate the Company in case the Vendor fails to report and payment of the EIT on the indirect equity transfer. In addition, such arrangement was further formally executed through a deed of tax indemnity entered into among the Company, the Vendor and the Guarantors on 30 March 2016. Therefore, the Directors believe the Vendor, who still own 51% equity interest in Ever-Grand, would voluntarily report and pay the EIT to the PRC tax authorities, as well as compensating the Group for any penalty to be imposed to the Group, if any. The Directors do not consider it probable that a claim will be made against the Group regarding the penalty mentioned above.

Except as above, the Group has no material contingent liabilities as at 31 December 2018 and 2017.

42. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets at amortised cost		
Trade and rental receivables	3,347	3,591
Other receivables	10,223	25,652
Utility and other deposits	2,910	1,577
Restricted bank deposits	8,563	24,068
Cash and cash equivalents	5,847	7,645
Financial assets at cost		
Available-for-sale financial assets	–	167,722
Financial assets at fair value		
Other financial assets – GLC Fund	110,000	–
Financial assets at fair value through profit or loss (contingent consideration receivable)	110,136	148,117
	251,026	378,372

	2018 HK$'000	2017 HK$'000
Financial liabilities at amortised cost		
Trade payables	31,266	45,583
Other payables	219,024	121,149
Accruals	4,673	4,334
Accrued interest expense	8,281	22,147
Borrowings	961,700	663,158
Convertible notes	104,051	134,911
	1,328,995	991,282

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise restricted bank deposits, cash and cash equivalents, borrowings and convertible notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade, rental and other receivables and trade and other payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks which are summarised below.

(a) Interest rate risk

At 31 December 2018, the Group had entrusted bank borrowings of HK$193,556,000 (2017: HK$233,784,000) and other borrowings of HK$553,969,000 (2017: HK$156,160,000), which were interest bearing with fixed interest rates.

At 31 December 2018, the Group had bank borrowings of HK$147,691,000 (2017: HK$189,152,000), which are interest bearing with floating interest rates. If interest rates on the bank borrowings, excluding the capitalised bank borrowings of HK$144,357,000, have been 100 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been HK$28,000 (2017: HK$24,000) higher/lower mainly as a result of higher/lower interest expense on floating rate borrowings, while the total non-current assets would have been HK$1,083,000 (2017: HK$1,397,000) higher/lower mainly as a result of higher/lower interest expense of floating rate borrowings capitalised on qualifying assets within property, plant and equipment and properties under development.

(b) Foreign currency risk

The Group carries on its sale and purchase/expenses transactions and raising borrowings mainly in HK$, US$ and RMB. As the foreign currency risk generated from the sales and purchases/expenses can be set off with each other, and the Group's subsidiaries borrow in its respective functional currencies, hence the foreign currency risk is minimal for the Group. It is the policy of the Group to continue maintaining the balance of its sales and purchases/expenses in the same currency. The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency transactions and other financial assets and liabilities created in the ordinary course of the business.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Credit risk

The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2018 and 2017 is the carrying amount as disclosed in note 42.

Applicable effective on 1 January 2018

(i) Trade and rental receivables

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and on an individual basis. Each of the customers has been attached with a trading limit and any excess to the limit must be approved by the general manager of the operation unit. Under the tight control of the credit term and detailed assessment to the creditworthiness of individual customers, the Group's exposure to bad debts is maintained as minimal.

In addition, as set out in note 4.12, the Group assesses ECL under HKFRS 9 on trade and rental receivables based on provision matrix, the expected loss rates are based on the payment profile for sales as well as the corresponding historical credit losses. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

Based on the above basis, the Group's management considers that the loss allowance inherent in the Group's outstanding trade receivables is not significant while loss allowance of approximately HK$5,443,000 was made on the Group's outstanding rental receivables from one tenant, of whom the Group has litigation against as at 31 December 2018.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Credit risk *(Continued)*

Applicable effective on 1 January 2018 (Continued)

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, restricted bank deposits and cash and cash equivalents. In order to minimise the credit risk of other receivables, the management of the Group has designated a team responsible for determination of credit limits and credit approvals. The management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables are considered to be low.

Besides, the management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 4.12 and, thus, ECL recognised is based on 12-month ECL and is close to zero.

The credit risk on restricted bank deposits and cash and cash equivalents are considered to be insignificant because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Applicable before 1 January 2018

At 31 December 2017, trade receivables of HK$69,000 were individually determined to be impaired. The individually impaired trade receivables related to receivables which are expected not to be recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain a contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirement.

The Group meets its day to day working capital requirements, capital expenditure and financial obligations through cash inflow from operating activities, raising additional share capital, and the facilities obtained from banks and others.

The Directors closely monitor the Group's liquidity position and financial performance and have initiated measures to improve the Group's cash flows. These measures include raising additional capital; obtaining additional financing from banks and others; and realising certain assets held by the Group through disposal, if considered necessary. The Group is expected to be able to generate sufficient cash flows to cover its operating costs and meet its financial obligations as and when they fall due in the coming twelve months from the date of these financial statements.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk *(Continued)*

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

	Within one year or on demand HK$'000	Between two to five years HK$'000	Total HK$'000
2018			
Trade payables	**31,266**	**–**	**31,266**
Other payables	**219,024**	**–**	**219,024**
Accruals	**4,673**	**–**	**4,673**
Accrued interest expense	**8,281**	**–**	**8,281**
Borrowings (note)	**543,659**	**539,454**	**1,083,113**
Convertible notes	**113,977**	**–**	**113,977**
	920,880	**539,454**	**1,460,334**
2017			
Trade payables	45,583	–	45,583
Other payables	121,149	–	121,149
Accruals	4,334	–	4,334
Accrued interest expense	22,147	–	22,147
Borrowings (note)	353,265	389,424	742,689
Convertible notes	–	166,869	166,869
	546,478	556,293	1,102,771

Note:

Included in borrowings is a term loan and bank overdraft amounted to HK$3,163,000 (2017: HK$2,874,000). The facility agreement contains a repayment on-demand clause, giving the lenders the unconditional right to call in the loan at any time and, therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk *(Continued)*

Note: *(Continued)*

Notwithstanding the above clause, the Directors do not believe that the loan will be called in its entirety within 12 months, and they consider that the loan will be repaid in accordance with the maturity dates as set out in the loan agreement. This evaluation was made considering the financial position of the Group at the date of approval of the consolidated financial statements; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time. At 31 December 2018, in accordance with the maturity terms of the loan, HK$178,000 will be due in 2019.

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for and benefit shareholders and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amounts of dividend paid to shareholders, return capital to shareholders, issue new shares or selling assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1. The current ratio at 31 December 2018 and 2017 is as follows:

	2018 HK$'000	2017 HK$'000
Current assets	1,299,856	1,146,080
Current liabilities	989,765	680,948
Current ratio	1.31	1.68

For the year ended 2017, the Group is subject to financial covenants under its other borrowings (note 30(vi)). The Group has to maintain its net asset value not be less than US$40,000,000 at any time, the ratio of total interest bearing debt to consolidated total assets not exceed 0.60 to 1.00 at any time, the ratio of consolidated total liabilities to consolidated total asset not exceed 0.60 to 1.00 at any time and the ratio of consolidated total current liabilities to consolidated total current asset not exceed 0.65 to 1.00 at any time. During the year ended 2017, the Group complied with the aforesaid ratio requirements. The borrowings was fully repaid in January 2018.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(f) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting period.

The carrying value less impairment provision of trade, rental and other receivables and trade and other payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Disclosures of the investment properties, other financial assets and financial assets at fair value through profit or loss that are measured at fair value at 31 December 2018 are set out in notes 16, 19 and 24 respectively.

(g) Offsetting financial assets and financial liabilities

There are no financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements for years ended 31 December 2018 and 2017.

44. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurements as follows:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

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

44. FAIR VALUE MEASUREMENTS *(Continued)*

(a) Disclosures of level in fair value hierarchy:

Description	Fair value measurement using: Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total 2018 HK$'000
Recurring fair value measurements:				
Financial assets				
Financial asset at fair value through profit or loss:				
Contingent consideration receivable	–	–	110,136	110,136
GLC Fund	–	110,000	–	110,000
	–	110,000	110,136	220,136
Investment properties				
Shopping mall – the PRC	–	–	241,821	241,821
Villas – the PRC	–	–	16,953	16,953
	–	–	258,774	258,774
Total	–	110,000	368,910	478,910

Description	Fair value measurement using: Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total 2017 HK$'000
Recurring fair value measurements:				
Financial assets				
Financial asset at fair value through profit or loss:				
Contingent consideration receivable	–	–	148,117	148,117
Investment properties				
Shopping mall – the PRC	–	–	252,967	252,967
Villas – the PRC	–	–	17,852	17,852
	–	–	270,819	270,819
Total	–	–	418,936	418,936

44. FAIR VALUE MEASUREMENTS *(Continued)*

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

	Investment properties- Shopping mall (note 16) HK$'000	**Investment properties- Villas (note 16) HK$'000**	**Contingent consideration receivable (note 24) HK$'000**	**Total 2018 HK$'000**
At 1 January	**252,967**	**17,852**	**148,117**	**418,936**
Settlement	**–**	**–**	**(52,892)**	**(52,892)**
Capitalised expenditure	**1,647**	**–**	**–**	**1,647**
Total gains recognised in profit or loss (#)	**–**	**–**	**14,911**	**14,911**
Exchange realignment	**(12,793)**	**(899)**	**–**	**(13,692)**
At 31 December	**241,821**	**16,953**	**110,136**	**368,910**
(#) Include gains/(losses) for assets held at end of reporting period	**–**	**–**	**14,911**	**14,911**

	Investment properties- Shopping mall (note 16) HK$'000	Investment properties- Villas (note 16) HK$'000	Contingent consideration receivable (note 24) HK$'000	Total 2017 HK$'000
At 1 January	241,165	15,703	87,631	344,499
Settlement	–	–	(24,231)	(24,231)
Total gains/(losses) recognised in profit or loss (#)	(6,950)	880	84,717	78,647
Exchange realignment	18,752	1,269	–	20,021
At 31 December	252,967	17,852	148,117	418,936
(#) Include gains/(losses) for assets held at end of reporting period	(6,950)	880	84,717	78,647

All the gains or losses recognised in profit or loss for the years arise from the fair value gains/(losses) on investment properties and the fair value gain on contingent consideration receivable held at the end of each reporting period.

44. FAIR VALUE MEASUREMENTS *(Continued)*

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

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

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2018 HK$'000	Fair value 2017 HK$'000
Shopping mall – the PRC	2018: Direct comparison approach	2018: Asking discount	-5%	Decrease	241,821	252,967
		Condition discount	-30% to -28%	Decrease		
		Size discount	-5%	Decrease		
	2017: Income capitalisation approach (term and reversionary method)	2017: Term yield	2% to 4%	Decrease		
		Reversionary yield	5%	Decrease		
		Market unit rent	RMB137 to 228 per sq. m.	Increase		
Villas – the PRC	Direct comparison approach	Asking discount	-2% (2017: -10%)	Decrease	16,953	17,852
		Condition discount	-2.14% to 0% (2017: -23% to 11%)	Decrease		
		Size discount	-2.77% to 0% (2017: -7% to -4%)	Decrease		
Contingent consideration receivable	Discounted cash flow approach	Discount rate	2017: 11.13%	Decrease	110,136 (note)	148,117
		Expected profit after tax attributable to the Group from the associate	2017: HKD2,395,000	Decrease		

44. FAIR VALUE MEASUREMENTS *(Continued)*

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

Level 3 fair value measurements (Continued)

For the shopping mall in the PRC, for the year ended 31 December 2018, the valuation was based on direct comparison approach which largely involves recent selling prices and taking into account of several unobservable inputs (e.g. asking discount, condition discount, size discount, etc.). For the year ended 31 December 2017, the valuation was based on income capitalisation approach (term and reversionary method) which largely involves unobservable inputs (e.g. market rent, yield, etc.) and taking into account the significant adjustment on yields to accounts for the security of the existing tenancies, and the risk upon reversionary and the estimation in vacancy rate after expiry of current lease.

Income capitalisation approach which mainly focus on rental income and restricted by remaining land use right term, valuation of the property is under downward pressure due to shortening remaining years of the land use right expiring term. However, the shopping mall is situated in a very mature commercial area and market price of properties located in the vicinity with similar size, scale, nature, character and usage are steadily increasing. There are sufficient market price of similar properties can be obtained as comparable. Using direct comparison approach in assessing the market value is considered to be more straightforward and reliable. Therefore, direct comparison approach instead of capitalisation method is adopted to reflect fair value of the shopping mall in current market in 2018.

For the villas in the PRC, the valuation was based on direct comparison approach which largely involves recent selling prices and taking into account of several unobservable inputs (e.g. asking discount, condition discount, size discount, etc.).

For contingent consideration receivable for the year ended 31 December 2018, the fair value of contingent consideration receivable represents the difference between the guaranteed consolidated audited profit after tax and Ever-Grand Net Profit in 2018 (note 24), while for the year ended 31 December 2017, the valuation was based on discounted cash flow approach which largely involves unobservable inputs (e.g. discount rate, the expected profit after tax derived attributable to the Group from the associate, etc.) and taking into account profitability on best, normal and worst scenario.

45. EVENTS AFTER THE REPORTING PERIOD

On 12 March 2018, the Company as issuer has entered into the placing and subscription agreement with Donghai International Securities (Hong Kong) Limited (東海國際證券(香港)有限公司) as placing agent, Donghai International Financial Holdings Limited (東海國際金融控股有限公司) as subscriber, and Mr. Peter Zhu, Ms. Qian Ling Ling, Mr. Zhu Boheng, Mr. Zhang Li and Shanghai Jin Da Di Investment Company Limited (上海金大地投資有限公司) as guarantors, pursuant to which the Company has agreed to issue the US$15 million (approximately HK$117 million), 10% senior guaranteed unsecured notes due in March 2019 in favour of Donghai International Financial Holdings Company Limited (the "Notes"). The Company shall redeem the Notes on the first anniversary of the issue date of the Notes, which can be extended for a further 1 year pursuant to the terms of the placing and subscription agreement and the conditions to the Notes (note 30(xii)).

On 12 March 2019, the Notes were redeemed in full by an issue of a promissory note (which carried similar terms to the Notes), except the repayment date will be due on 11 June 2019, and carries an interest rate of 15% per annum.

The management determined that Donghai International Securities (Hong Kong) Limited and Donghai International Financial Holdings Limited are independent to the Group as at 31 December 2018.

Five Year Financial Summary

A summary of the results, assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows:

	Year ended 31 December				
	2018 **HK$'000**	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Results					
Revenue	**81,809**	66,890	23,047	24,422	27,127
Loss before income tax	**(353,451)**	(398,056)	(332,830)	(708,579)	(172,390)
Income tax credit (expense)	**(604)**	2,633	4,116	65,041	(5,642)
Loss for the year attributable to owners of the Company	**(354,055)**	(395,423)	(328,714)	(643,538)	(178,032)

	As at 31 December				
	2018 **HK$'000**	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Assets and Liabilities					
Total assets	**2,637,551**	2,546,030	2,662,260	1,904,499	2,675,179
Total liabilities	**(1,632,596)**	(1,339,409)	(1,215,423)	(935,674)	(1,220,724)
Equity attributable to owners of the Company	**1,004,955**	1,206,621	1,446,837	968,825	1,454,455