天譽置業（控股）有限公司
SKYFAME REALTY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 00059)

ANNUAL REPORT 2018

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Mr. WANG Chenghua
(appointed on 22 October 2018)

Non-executive Director:

Mr. WONG Lok
(re-designated from executive director to non-executive director on 1 January 2019)

Independent Non-executive Directors:

Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

AUDIT COMMITTEE

Mr. CHOY Shu Kwan *(Chairman)*
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

REMUNERATION COMMITTEE

Ms. CHUNG Lai Fong *(Chairman)*
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Mr. YU Pan

NOMINATION COMMITTEE

Mr. YU Pan *(Chairman)*
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

RISK MANAGEMENT COMMITTEE

Mr. WEN Xiaobing *(Chairman)*
Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

SHARE LISTING

Main Board of The Stock Exchange
of Hong Kong Limited, Stock Code: 00059

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1401, 14/F., Capital Centre
151 Gloucester Road, Wanchai, Hong Kong
Telephone: (852) 2111 2259
Facsimile: (852) 2890 4459

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street
Hamilton, HM 11, Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
China Minsheng Banking Corp., Ltd.
The Bank of East Asia, Limited
Industrial Bank Co., Ltd., Hong Kong Branch

AUDITOR

BDO Limited
Certified Public Accountants

CORPORATE INFORMATION

BOND LISTING

The Stock Exchange of Hong Kong Limited

The Company's 0.1% bonds due 2024,
Stock Code: 05821 (ISIN: XS1130150391)
The Company's 0.1% bonds due 2024,
Stock Code: 05580 (ISIN: XS1323898707)
The Company's 0.1% bonds due 2025,
Stock Code: 05626 (ISIN: XS1397876258)
The Company's 0.1% bonds due 2026,
Stock Code: 05310 (ISIN: XS1525845985)
The Company's 0.1% bonds due 2026,
Stock Code: 05367 (ISIN: XS1558627771)
The Company's 0.1% bonds due 2031,
Stock Code: 05855 (ISIN: XS1142114278)
The Company's 0.1% bonds due 2031,
Stock Code: 05567 (ISIN: XS1304503268)
The Company's 0.1% bonds due 2032,
Stock Code: 05602 (ISIN: XS1341411822)
The Company's 0.1% bonds due 2033,
Stock Code: 05311 (ISIN: XS1525848575)
The Company's 0.1% bonds due 2033,
Stock Code: 05379 (ISIN: XS1558627342)

Singapore Exchange Securities Trading Limited

The Company's 10% bonds due 2019
ISIN: XS1855419161

LEGAL ADVISERS

Hong Kong Laws:
Sidley Austin

Bermuda Laws:
Conyers Dill & Pearman

PRC Laws:
廣東瀛杜律師事務所
(Guangdong Yingdu Law Firm)
廣東聯合發展律師事務所
(Guangdong Lianhefazhan Law Firm)

COMPANY'S WEBSITE

http://www.tianyudc.com

CHAIRMAN'S STATEMENT

I am pleased with the record-breaking contracted sales, recognized revenue and earnings of the Group for the past year. Contracted sales reached a height of RMB9.37 billion, 17% exceeding our sale budget of RMB8.0 billion. Driven by the increased in floor area delivered, recognized property sales reached RMB6,192 million for the year, a 51.7% increase from last year. Profitability of property sales went up as well, i.e, post-tax earnings reached RMB1,644 million, representing a growth of 58.3% growth and after-tax earnings reached RMB820.8 million, representing a growth of 50.0%.

We understand that it is our investors' expectation that every corporation is to sustain in growth and earnings. It is therefore important for corporations to develop long-term plans especially in midst of the challenges caused by the recent downturn in the global economy and domestic market in mainland China. Our ultimate objective is to strengthen the confidence of investors and the general public on the Company.

The concerns of investors and public are clear to us, ie. they are placing emphasis, not just on earnings, but also quality products with focus on environmental protection to customers and general public, sufficient protection and diversity in employment to employees etc. All these voices call for a creation of value to each stakeholder of our Company. We rely on our management team to make a meaningful purpose of running the organization's operations that address the concerns of all its stakeholders, covering, among the others, our customers, creditors, employees and shareholders.

We have built up mission that is embedded in the business models and strategies of the Company to create value to customers, especially young first-home buyers, by providing environment-friendly, quality and affordable homes, and service to enhance the living standard of the population living in our youth community projects. Other than the quality accommodation, we also provide or participate with business affiliates in the commercial operations and service covering catering, entertainment, education and medical care to the occupants. We are in the start in the commercial operations of youth community projects and will devote more resources to become a caring developer to home buyers.

We are mindful to serve our customers, not just to provide quality properties, but our service provided in the community surrounding our projects. Since 2017, we have launched the Group's first co-work office at the commercial podium at Guangzhou Skyfame Garden that has been a success, The operations will extend to our three youth community projects in three of our projects under development with aggregate GFA of over 3 million sq. m. in Nanning and Xuzhou. Further, a district hospital being built in a walking distance from our three projects in Nanning marks our first operation in medical service to the population in Liangqing district and other regions of Nanning. These commercial operations in our youth community projects provide the Group with a growing and sustainable stream of income, though they are still in a business segment currently under exploration which our management anticipates will grow in pace with our development of the youth community projects in the coming years.

Our management devoted efforts in fast growing cities or regions to modernize old districts into new towns, and hence helping local governments in the urbanization and old district remodeling. We have a management team working closely with governmental authorities in the remodeling process. Inevitably, the action plans in city modernization need efforts and time to execute for which our management team is entrusted by villagers and governments. Currently, we have six land plots rendering a total estimated GFA

CHAIRMAN'S STATEMENT

of 19.47 million sq.m. where we are working out with local governments and villagers' committees in the remodeling of old districts in Guangzhou and Shenzhen.

Our penetration of projects in the Greater Bay Area in Guangdong province, Huaihai economic zone, the southern and south-west regions in the PRC will continue. As at 31 December 2018, we held a portfolio of contracted or potential land bank for projects (including old district remodeling projects) under or for future development that will offer aggregate GFA of approximately 25.6 million sq. m..

As a growing developer, we need to replenish land bank regularly to serve the growth needs. We are looking for affordable and reasonable funding for the acquisitions. Throughout 2018, on the backdrop of tight credit and uncertainties in the capital market, the Group has raised new debts to finance acquisitions and received continuing supports from commercial banks in project loans. Currently, we have entered or are preparing to enter into a number of strategic cooperative agreements with some reputable financial institutions, including but not limited to, Guangzhou Rural Commercial Bank for financing up to RMB6 billion on an old district remodeling project in Guangzhou participated by the Group, for the investment by Dongguan Trust to the extent of RMB5 billion in our development and remodeling projects, and Industrial Commercial Bank of China in Nanning for financing the development costs in our four mega size projects in Nanning to the extent of RMB4 billion. We treasure good relationship with our lenders whose support is a must to us in our ongoing fund raising exercises.

Employees are assets to us and essence in the sustainability of the Group. We provide good working environment to staff where their career developments are nourished. By a share award scheme adopted in July 2018, shares of the Company are awarded to selected employees as a token of appreciation. We believe this is an efficient way to retain good and talented managers.

Our mission is to create added values for shareholders of the Company. We believe that the Group's reward to shareholders will be realized by the earnings and dividends. During the year, we have established a policy in dividend distribution and the management will cautiously monitor the performance of the Group to ensure the investment return of shareholders is well observed.

I foresee there are much pressure and challenges to overcome when meeting the mission to add values to our stakeholders. We are positive towards the general economy at the current moment which will support the sustainability of the Company, and on the other hand, the current economic conditions needs supports from our corporate.

Being the chairman of the board of directors and also the chief executive officer of the Company, I would like to express my sincere gratitude to all our staff, customers, suppliers and business associates, creditors and shareholders for their unwavering assistance and support to the Group in the past years.

Yu Pan
Chairman

Hong Kong, 22 March 2019

CORPORATE PROFILE

Skyfame Realty (Holdings) Limited ("Skyfame"), listed on the main board of The Stock Exchange of Hong Kong Limited under stock code 00059, is principally engaged in the property development, property investment, property management and commercial operations.

The Group focuses on the development of a wide range of property types including residential and commercial properties, offices, serviced apartments and hotels in China as well as property investment and property management. Rooted in Guangzhou, the Group explores into cities on mainland China with high potentials in the development of commercial and residential projects with particular focus on community projects tailored-made for young home buyers. Currently, the Group holds a portfolio of development projects and land reserves covering Guangzhou, Zhongshan and Shenzhen in the Greater Bay Area, Nanning, Guilin and Kunming in the southern region, Chongqing in the south west region and Xuzhou in the Huahai economic zone of Jiangsu province.

The Group holds project portfolio with an aggregated GFA of approximately 25.6 million sq.m. which consists of GFA of 5.9 million sq.m. existing projects completed or under development, GFA of 0.2 million sq.m. held for future development, and GFA of 19.5 million sq.m. for potential land reserves in Greater Bay Area, Nanning, Guilin, Xuzhou and Kunming for which co-operation agreements have been contracted with local governments or a third party pending land auctions, or framework agreements signed with parties involved in the redevelopment of old districts in Guangzhou and Shenzhen.

Leveraging on our management expertise in the property development business with specialty on the refurbishment of old urban areas and the development of youth community projects, the Group has established itself as a reputable and trustworthy property developer on mainland China.

Highlights of Events in 2018

Jan-Mar	•	The Group acquired a project namely "Chongqing Skyfame•Smart City" located in Nanan District of Chongqing through step-up acquisitions for the development of a planned GFA of approximately 1,179,000 sq.m..
Mar	•	Skyfame has been admitted as an index constituent of "FTSE EPRA/NAREIT Global Emerging Markets Index" with effect from 19 March 2018.
Sep	•	Skyfame has been admitted as an index constituent of "Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index" with effect from 10 September 2018.
Sep	•	The Group acquired the right to develop Phase 1 of "Kunming Anning Linxi Valley" located in Kunming of China.
Dec	•	The initial phases in "Nanning Skyfame ASEAN Maker Town" in Nanning was completed and commenced handing-over the properties to buyers.

CORPORATE PROFILE

Major Honours and Awards — 2018 to the present

Skyfame was founded in 1997 in Guangzhou. Throughout the history, the group has received numerous awards from reputable and accredited entities as a token of recognition and appreciation of the Group's performance and standing in the property development field. Awards received during 2018 and up to the date of this annual report are listed as follows:

The Group

Skyfame was ranked 163rd in the list of "2019 China Real Estate Development Enterprises Top 500" and 176th in the list of "2018 China Real Estate Development Enterprises Top 500" released by the China Real Estate Association and the China Real Estate Evaluation Center of Shanghai Yiju Real Estate Research Institute.

Skyfame was ranked 167th and 182nd nation-wide among the mainland real estate developers in the list of the "2018 China Real Estate Enterprises Top 200" by contracted saleable area and amount respectively as published by CRIC Research Center.

Skyfame received the award of "2018 Quality China Real Estate Developer" from Organizing Committee of the China Real Estate Enterprise Awards.

Skyfame was awarded the "2018 Annual Award of the Listed Companies" by Hong Kong Stock Analysts Association.

Skyfame was awarded the "2018 China Real Estate Comprehensive Development Professional Leading Brand Value TOP 10 – City Youth Innovation Service" by China Real Estate Top 10 Research Group.

Skyfame was awarded the "2018 Chinese Real Estate Industry Outstanding Enterprise" by China Real Estate Industry Management Association.

Skyfame was awarded the "2018 Xuzhou Most Influential Brand Real Estate Enterprises Award" by Xuzhou Media Group.

Nanning Projects

Nanning Skyfame Garden and Nanning Skyfame ASEAN Maker Town (collectively known as "Nanning Skyfame City") were awarded the "2018 Commercial Properties at Highest Investment Value" by Guangxi Daily Media Group, Southern Morning Post and Home Weekly.

Nanning Skyfame City was awarded the "2018 Guangxi Real Estate Industry Ceremony- Single Project Sales Champion in Guangxi and Commodity Property Sales Top 3 in Nanning", "2018 Guangxi Real Estate Industry Ceremony- Nanning Commodity Property Sales Top 3" and "2018 Guangxi Real Estate Industry Ceremony- Guangxi Real Estate Sales Top 20" respectively by Guangxi Real Estate Association, CRIC Research Center, Star broadcast Media Group Perfect Real Estate, Guangxi Radio and Television News Channel.

CORPORATE PROFILE

Nanning Skyfame City was awarded "2018 Nanning Most Valuable Real Estate Investment Project Award" by Guangxi Radio and Television Education Broadcasting, Leda Media and Ai Rui Consulting.

Nanning Skyfame Garden received the award of "2018 Metro Property Award" from Guangxi Daily Media Group, Southern Morning Post, and Home Weekly.

Our project company, Nanning Tianyu Jurong Realty Company Limited, was awarded "2018 Guangxi Real Estate Social Contributing Enterprise Award" by Guangxi Daily Media Group, Southern Morning Post and Home Weekly.

Nanning Skyfame City was awarded "2018 Guangxi-Wuxiang Central Metropolitan Project Award" by Nanning Evening News and 95.0 Guangxi Music Radio.

Guangzhou Project

Guangzhou Skyfame Byland was awarded "Happinese Home Champion – Most Influential Award in Urban City" by Guangdong Radio and Television News Channel, Guangdong Radio and Television Real Estate Channel, the Guangdong Academy of Social Sciences Environment, Economic and Policy Research Center.

Guangzhou Skyfame Byland received the award of "2018 China Real Estate Champion List -Top City Central Benchmark Luxurious Residences" from NetEase News Real Estate, the Guangdong Real Estate Association, and the Evaluation Committee of China Real Estate Champion list.

Xuzhou Projects

Xuzhou Skyfame Time City was awarded "2018 Xuzhou Real Estate Annual Festival- Honorary Enterprises Award" and "2018 Xuzhou Real Estate Annual Festival- the Most Influential Brand" by Xuzhou Broadcast and Television Media Group.

Community of Mr. Fish in Xuzhou Skyfame Time City was awarded the "2018 Top 10 Real Estate Project Award" by Tencent Xuzhou Station.

Chongqing Project

Chongqing Skyfame Smart City received the award of "The First Smart Expo Chongqing Smart Property Developer Show-the 10 Best Smart Community" from Chongqing Daily.

Chongqing Skyfame Smart City received the award of "Wonderful Life City Construction Model Enterprise" from People.cn Chongqing.

Chongqing Skyfame Smart City was awarded "Advanced City Quality Project under Construction in Chongqing" by Urban and Rural Construction Committee of Chongqing NanAn District.

Chongqing Skyfame Smart City received the award of "2018 Time Model-Annual Outstanding Brand" and "The Best City-living Pioneer" from Phoenix Real Estate.

Chongqing Skyfame Smart City was awarded "2018 Real Estate Top List- the Annual Model Project" by Anjuke.

MANAGEMENT DISCUSSION AND ANALYSIS

A. BUSINESS REVIEW

The year 2018 was another year in which management grasped breakthroughs in contracted sales, recognized sales and profits. Due to the increase in floor areas of properties delivered in four projects, namely Guangzhou Skyfame Byland, Nanning Skyfame Garden Project, Nanning Skyfame ASEAN Maker Town and the newly acquired Chongqing Project, the Group had a record-high property sales of RMB6,122.4 million for the year, a 51.4% increase in revenue from last year.

During the year, the Group's four projects with aggregate GFA of 583,000 were delivered. Besides, the Group has also made contracted sales in GFA of 724,000 sq.m. that are under development, driving the increase in contracted sales for the year. In 2018, contracted sales of approximately RMB9.37 billion were made, representing 17% increase from the annual targeted contracted sales of RMB8.00 billion. These contracted sales have been or will be booked as property sales in the years 2018 to 2021 when the subject properties are completed.

The Group's contracted sales and recognized sales of properties in sale value and GFA by projects for 2018 are as follows:

Project	Contracted Sales Saleable GFA *sq.m.*	Contracted Sales Gross Amount *RMB'million*	Recognized Sales Saleable GFA *sq.m.*	Recognized Sales Gross Amount *RMB'million*
Guangzhou Skyfame Byland	19,000	1,307	26,000	1,686
Zhongshan Skyfame Rainbow	36,000	587	–	–
Nanning Skyfame Garden	90,000	897	311,000	2,474
Nanning Skyfame ASEAN Maker Town	228,000	2,759	149,000	1,371
Impression of Sandalwood House	110,000	1,291	–	–
Xuzhou Skyfame Time City	142,000	1,014	–	–
Chongqing Danzishi Project	99,000	1,516	97,000	999
Total in year 2018	724,000	9,371	583,000	6,530
Total in year 2017	509,000	5,803	217,000	4,277

Contracted GFA rose to 724,000 sq.m. (2017: 509,000 sq.m.) at overall gross average selling price ("ASP") of RMB12,900 per sq.m. (2017: RMB11,400). The rise in GFA and ASP on properties contracted in the current year demonstrates an improving trend in earnings of the Group at the time when such properties are handed over to buyers.

MANAGEMENT DISCUSSION AND ANALYSIS

B. PROPERTY PORTFOLIO

As at 31 December 2018, the Group has project portfolio and potential land reserves in aggregate of GFA 25.6 million sq.m. located in Guangzhou, Shenzhen, Zhongshan in the Greater Bay Area, Nanning and Guilin in Southern China, Xuzhou in the Huaihai economic zone, and Chongqing and Kunming in the southwest region. These projects and land reserves provides the Group a solid capacity for a sustainable growth in the approaching time horizon.

1. *Properties under development/held for sale*

During the year, the Group underwent the development of nine real estate development projects in mainland China of which one has been completed and the others under construction. As at 31 December, 2018, the Group's development projects on hand renders a total GFA of approximately 5.87 million sq.m., of which GFA of approximately 4.54 million sq.m are saleable. These properties are scheduled to be built up and sold in the coming years in 2019 to 2024. The portfolio enables the Group to sustain in growth in the coming years.

As at 31 December 2018, excluding the areas already delivered, the project portfolio, excluding those held as investment properties, renders a total remaining saleable GFA of approximately 3.36 million sq.m., that will be delivered to buyers in the coming years between 2019 to 2024.

The table below sets out details of property projects being developed by subsidiaries and a joint venture.

Project	Location	Property type	Estimated total GFA *(Note a)* *(sq.m.)*	Estimated total saleable GFA *(Note a)* *(sq.m.)*	Accumulated saleable GFA contracted *(sq.m.)*	Accumulated saleable GFA delivered *(sq.m.)*	Estimated completion year	The Group's interest
Guangzhou Skyfame Byland	Guangzhou	Residential & commercial	320,000	158,000	117,000	111,000	2017 – 19	100%
Zhongshan Skyfame Rainbow	Zhongshan	Residential & ancillary commercial	105,000	88,000	36,000	–	2020	51%
Nanning Skyfame Garden	Nanning	Residential & ancillary commercial	1,212,000	896,000	668,000	495,000	2016 – 18	80%
Nanning Skyfame ASEAN Maker Town	Nanning	Composite development	1,319,000	1,066,000	625,000	148,000	2018 – 24	100%

MANAGEMENT DISCUSSION AND ANALYSIS

Project	Location	Property type	Estimated total GFA *(Note a)* *(sq.m.)*	Estimated total saleable GFA *(Note a)* *(sq.m.)*	Accumulated saleable GFA contracted *(sq.m.)*	Accumulated saleable GFA delivered *(sq.m.)*	Estimated completion year	The Group's interest
Xuzhou Skyfame Time City	Xuzhou	Residential & ancillary commercial	468,000	401,000	303,000	–	2019 – 20	90%
Xuzhou Skyfame Elegance Garden	Xuzhou	Residential & ancillary commercial	205,000	164,000	–	–	2021 – 22	92%
Chongqing Project (Acquired in 2018)	Chongqing	Composite development	1,179,000	954,000	241,000	163,000	2017 – 23	100%
Kunming Anning Linxi Valley (Acquired in 2018) *(Note c)*	Kunming	Residential & ancillary commercial	296,000	253,000	–	–	2020 – 21	n/a
Sub-total – developed by subsidiaries			**5,104,000**	**3,980,000**	**1,990,000**	**917,000**		
Nanning Impression of Sandalwood *(Note b)*	Nanning	Residential & ancillary commercial	764,000	564,000	110,000	–	2020 – 22	40%
Sub-total – developed by joint venture			**764,000**	**564,000**	**110,000**	**–**		
Total			**5,868,000**	**4,544,000**	**2,100,000**	**917,000**		

Note:

(a) Total saleable GFA excludes un-saleable area for municipal facilities, area allocated to a cooperative partner and resettlement housing to be provided without compensation in certain projects.

(b) For Nanning Impression of Sandalwood, a project being developed by a jointly controlled entity, the above-mentioned project profile refers to the GFAs of that project company.

(c) For Kunming Anning Linxi Valley, a project being developed through a right under a contractual arrangement, the above-mentioned project profile refers to the GFAs of that project company.

MANAGEMENT DISCUSSION AND ANALYSIS

Guangzhou Skyfame Byland

Zhoutouzui Project, also named as "Skyfame Byland" ("天譽半島"), is held by a sino-foreign cooperative joint venture enterprise which is jointly controlled by the Company and a third party, Guangzhou Port Group Co., Limited (廣州港集團有限公司, "**Port Authority**"), an original user of the land who is entitled to share 28% in developable GFA of the completed properties pursuant to a joint venture agreement entered into in 2001. The legal title over the remaining 72% of the completed properties rests with the Group.

The plot is located at Zhoutouzui, Haizhu district, Guangzhou, at the riverside of Bai e lake, one of the top 8 attractions in Guangzhou. The project represents the only sizable luxury living community with the widest river view on sale in Guangzhou. The project located at central Guangzhou, is a mixed-use development with a total GFA of approximately 320,000 sq.m., consisting of 7 towers comprising residential apartments, offices, serviced apartments, municipal and other facilities, underground car parking facilities and supporting commercial facilities.

Other than tower A1 which was contracted with in hotel operator for the operations of serviced apartment under a tenancy agreement for a term of 20 years. Saleable GFA of approximately 81,000 sq.m. were handed over to Port Authority. Accumulated sales amounting to RMB5.58 billion and saleable GFA of approximately 117,000 sq.m. have been contracted up to 31 December 2018. Remaining properties in GFA of approximately 10,000 sq.m. and about 800 car parking spaces are on sale. Another 800 car parking spaces and hotel tower A1 (GFA of approximately 9,400 sq.m.) are retained by the Group for long-term leasing purpose.

Zhongshan Skyfame Rainbow

The project, named as Zhongshan Skyfame Rainbow ("中山天譽虹悦"), is located in Tsui Sha Road (翠沙路), Rainbow Planning Zone, at the north of West Zone, Zhongshan, Guangdong province, which is a residential with ancillary commercial development. Total GFA is about 105,000 sq.m. (saleable GFA of 88,000 sq.m.), inclusive of an underground area of about 16,000 sq.m.. Construction works will be completed in 2020. Pre-sale was firstly launched in September 2018. Up to 31 December 2018, sales of residential units of approximately RMB0.59 billion (saleable GFA of approximately 36,000 sq.m.) have been contracted.

MANAGEMENT DISCUSSION AND ANALYSIS

Nanning Skyfame Garden

Nanning Skyfame Garden and Nanning Skyfame ASEAN Maker Town, collectively branded as "Nanning Skyfame City" ("南寧天譽城").

The project is located in the business hub of Wuxiang New District (五象新區) at the southeast of the downtown of Nanning, the capital of Guangxi province. The project is being developed into a residential community district, namely "Nanning Skyfame Garden" ("南寧天譽花園"), with a total GFA of approximately 1,212,000 sq.m., consisting of GFA of approximately 927,000 sq.m. (saleable GFA of approximately 651,000 sq.m.) for residential, retail properties and car parking facilities for sale, and GFA of approximately 285,000 sq.m. (saleable GFA of approximately 245,000 sq.m.) of residential and commercial units for resettlement of original occupants.

The entire project with a total of 65 towers was completed as at 31 December 2018. Up to 31 December 2018, contracted sales of approximately RMB4.62 billion (saleable GFA of approximately 668,000 sq.m.) have been made. Aggregated saleable GFA of approximately 495,000 sq.m. has been delivered and the remaining will be delivered in in the imminent future.

Nanning Skyfame ASEAN Maker Town

The development covers three land plots of 194,221 sq.m. (equivalent to 291.33 mu) located at the north of Wuxiang Da Road, Wuxiang New Zone (五象新區), Liangqing District, Nanning, Guangxi. The project is within walking distance with Nanning Skyfame Garden.

The project is a development complex divided into east and west zone and is developed by phases. Planned total GFA is approximately 1,319,000 sq.m. (saleable GFA of approximately 1,066,000 sq.m.). The east zone features A-class offices, retail properties and an international 5-star hotel branded as Westin Nanning located in a skyscraper at a height of 346 meters named as the Skyfame ASEAN Tower ("天譽東盟塔"), as well as a community development consisting of serviced apartments, retail properties, and ancillary facilities developed for young occupants named as "the World of Mr. Fish" ("魚先生的世界"). The west zone features residential and retail properties named as "Skyfame Byland" ("天譽半島"). Construction works of the two zones will be completed between the years from 2018 to 2024. The development, when completed, will be a landmark in Wuxiang New District.

MANAGEMENT DISCUSSION AND ANALYSIS

Up to 31 December 2018, residential and commercial units of saleable GFA of approximately 634,000 sq.m. are on sale, for which sales of approximately RMB6.92 billion (saleable GFA of approximately 625,000 sq.m.) have been recorded.

Nanning Impression of Sandalwood

The Group participates in a joint venture with 40% equity interest in a project company formed with two other local developers. The land was acquired by the joint venture company through public auction in December 2017. The project is located in the core area of Wuxiang New Zone, between Skyfame Garden and Vanke Park, at the north of Yudong Avenue (玉洞大道) in Liangqing District, Nanning. The project, named as "Impression of Sandalwood House" ("檀府 • 印象"), situated on a plot of approximately 138,000 sq.m. with a planned GFA of approximately 764,000 sq.m. (saleable GFA of 564,000 sq.m.), includes residential and commercial properties, primary school and municipal facilities. Construction works commenced in March 2018 and will be completed in phases by 2021.

The first pre-sale was launched in early September 2018. Up to 31 December 2018, sales of RMB1.29 billion (saleable GFA of 110,000 sq.m.) have been contracted.

Chongqing Project

In January and March 2018, the entire equity interests of the Chongqing Project was acquired through step-up acquisitions. The project is located in Danzishi CBD, Nanan District of Chongqing and is one of the city's three major CBDs where embraces the central government district, core financial zone and scenery on the river shores. The location is one of the top ten key development zones in Chongqing. Total GFA of approximately 1.2 million sq.m. will be developed in two phases.

Development of Phase 1, named as "Gold Purple" ("紫金一品"), commenced in 2015 and was completed in early 2018. Total planned GFA and total saleable GFA are approximately 313,000 sq.m. and 256,000 sq.m. respectively. Up to 31 December 2018, contracted sales of RMB1.75 billion (saleable GFA of 172,000 sq.m.) have been made. Saleable GFA of approximately 163,000 sq.m. have been delivered up to 31 December 2018. The inventories on sale are residential apartments, offices and retail properties of approximately 55,000 sq.m. and 2,000 car parking spaces.

MANAGEMENT DISCUSSION AND ANALYSIS

Phase 2 of the development, named as "Chongqing Skyfame • Smart City" ("重慶天譽 • 智慧城"), is a composite development consisting of residential, loft apartments and retail properties of a total GFA of 866,000 sq.m. (Saleable GFA of 698,000), of which GFA of 248,800 sq.m. will be developed for investment holding and the remaining for sale. Construction works have commenced in the second quarter of 2018 and pre-sale has been commenced in late of 2018. Up to 31 December 2018, contracted sales of RMB0.98 billion (saleable GFA of 69,000 sq.m.) have been made.

Xuzhou Skyfame Time City

The plot of Xuzhou Skyfame Time City ("徐州天譽時代城"), a site of 173,000 sq.m., was acquired through a public auction in December 2016. The land is located at Xuzhou Quanshan Jiangsu Economic Development Zone (江蘇徐州泉山經濟開發區) of Xuzhou, Jiangsu province. The project is situated in Times Avenue South and Xufeng Highway West in Xuzhou. When completed, it will become an eco-residential and commercial development. Total GFA is about 468,000 sq.m. (saleable GFA of 401,000 sq.m.), inclusive of an underground area of about 77,000 sq.m.. Construction works are expected to be completed in three phases starting from late 2018 and until 2020.

Up to 31 December 2018, residential and retail properties of saleable GFA of approximately 322,000 sq.m. are on sale, for which sales of RMB2.03 billion (saleable GFA of 303,000 sq.m.) have been contracted

Xuzhou Skyfame Elegance Garden

The plot of Xuzhou Skyfame Elegance Garden ("徐州天譽雅園"), a site of 74,000 sq.m. (equivalent to 110 mu), was acquired in June 2017 and is located at 1 km apart from Xuzhou Skyfame Time City.

The project is planned to become a residential and commercial development. Total GFA is about 205,000 sq.m. (saleable GFA of 164,000 sq.m.), inclusive of an underground area of about 40,000 sq.m.. Construction works have been commenced in end of 2018 and to be completed in 2022. Pre-sale will be launched in second quarter of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Kunming Anning Linxi Valley

In September 2018, the Group obtained a right through a contractual arrangement entered with a third party to develop Phase 1 of Kunming Anning Linxi Valley ("昆明安寧林溪谷"). The project is approximately 190,800 sq.m. with a planned GFA of approximately 296,000 sq.m. (saleable GFA of 253,000 sq.m.), will be developed into villa, residential and ancillary commercial properties. Construction works commenced in November 2018. The first phase of pre-sale will be launched in 2019.

2. Projects for Future Development

The Group holds some projects with land use rights for which development is expected to commence imminently upon fulfilment of certain outstanding conditions, such as the approvals on conversion of land uses, and grants by government of right to remodel old districts. As of 31 December 2018, the Group holds two projects of such types. Management expects development can be commenced right upon the obtaining of such governmental approvals. Investment costs paid on these projects are presented as "Prepayments or Deposits for Proposed Projects For Sale" on the consolidated statement of financial position of the Company. The two projects, situated in Guangzhou and Shenzhen, are of material values and can render the Group an estimated total GFA of 264,000 sq.m.. Details and status of these projects are as follows:

Shenzhen Dachitdat Project

The land of this project, a subject of an old district remodelling project, is under demolition and the project company is in the final stage of the application of the development right for a development of an aggregate GFA of 142,000 sq.m. (total saleable GFA of 119,000 sq.m.) for innovative industrial and serviced apartment uses. The project is located on the southeast of Guangming New Zone, Shenzhen.

The re-development right have been obtained on 22 March 2019. Construction will be commenced once the planning and construction permits have been granted and is expected to take place in the later months of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Guangzhou Luogang Project

Guangzhou Luogang Project is located at the north of Yin Tong Road (賢堂路) of Yonghe District in Huangpu, Guangzhou. Our Group plans to develop the project into serviced apartments and commercial properties. The project occupies a site of 50,263 sq.m. with planned GFA of approximately 122,000 sq.m. (total saleable GFA of 101,000 sq.m). Commencement of construction is pending the obtaining of government approval for the conversion of the land use from industrial to commercial. Negotiations with the local government are in progress.

3. Potential Land Reserves

3.1 Intended bids for lands

For future development, the Group has signed seven co-operation agreements with local governments or a third party in Nanning, Guilin, Xuzhou and Kunming for obtaining land titles through future public auctions with an aggregated GFA of approximately 12.93 million sq.m.

3.2 Refurbishment of old urban areas

The Group also holds potential land reserves through its participation in the redevelopment of some old districts that are subject to the urban redevelopment programs being implemented by local governments in Shenzhen and Guangzhou. These remodelling projects will provide estimated GFA of approximately 6.54 million sq.m.. Investments made on these projects are included as "Prepayments or Deposits for Proposed Projects For Sale" on the Consolidated Statement of Financial Position.

Upon obtaining the governmental approval of development plans of the subject zones of urban area refurbishment and completion of pending land auctions as set out above, the Group is enabled to build up an additional land bank of a total estimated GFA of 19.47 million sq.m.

MANAGEMENT DISCUSSION AND ANALYSIS

C. INVESTMENT PROPERTIES

The Group also holds six investment properties in Chongqing, Guangzhou and Hong Kong for current and future leasing income with details as follows:

1. Commercial properties under development in Chongqing Project

Properties under development in phase two of Chongqing Project with GFA of 248,800 sq.m. are to be built into serviced apartments for long-term investment purpose as a condition of the land transfer contract. The long-term held properties, currently under development, will become part of an integrated complex which will be completed in 2023 in a central business district at the Southern Shore District of Chongqing. The property carries a fair value of RMB1,215 million as estimated by an independent valuer with reference to the valuation as at 31 December 2018 performed by an independent valuer.

2. Guangzhou Skyfame Byland

a. A tower in Zhoutouzui Project, consisting of GFA of 94,000 sq.m., is built up and contracted to a renowned hotel operator of serviced apartments under a tenancy agreement for a term of 20 years commencing 30 March 2019 or the date of final inspection of completion, whichever is the later, at a fixed monthly rental of RMB1,840,000 for the first rental period of 25 months accelerated up to RMB2,719,000. Currently, the construction works have been completed pending the final inspection by government authorities. The fair value of the property as valued by the independent value is RMB520 million as at 31 December 2018.

b. Car parking spaces in Guangzhou Skyfame Byland

   800 car parking spaces in Zhoutouzui Project were put for long-term leasing to a management company at a fixed management fee of RMB750,000 per month. The car parking spaces carry a fair value of RMB520 million as of 31 December 2018 as valued by an independent valuer.

3. Commercial podium at Tianyu Garden Phase II

A 17,300 sq.m. commercial podium at Tianyu Garden Phase II in Tianhe District, Guangzhou is 97% occupied as at 31 December 2018 at an average monthly rental of RMB125 per sq.m.. The open market value of the property is approximately RMB469.0 million as of 31 December 2018.

4. Office premises at Huancheng HNA Plaza

Totalling 1,500 sq.m. office units in Huancheng HNA Plaza, Tianhe District, Guangzhou, were taken up from the turn-key buyer of Tianhe Project in 2017 when the project was completed. The independent valuer assessed the open market values of the property at approximately RMB51.7 million as of 31 December 2018. The premises are fully tenanted at an average monthly rental of approximately RMB150 per sq.m.

5. Office premises at Capital Centre

A 6,200 sq. ft. office premise at Capital Centre in Wanchai, Hong Kong is leased to tenants as at 31 December 2018 at an average monthly rental of RMB31.3 per sq. ft.. During the year, floor area of 2,500 sq. ft. is repossessed by the Group for self-occupation as office, and hence the open market value of the property held for leasing as assessed by an independent valuer is reduced accordingly to approximately RMB131.5 million (HK$150.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

D. BUSINESS OUTLOOK

We saw recent easing of the regulatory control policies by local governments in restricting demand for properties. The outlook for the Chinese property sector is becoming stable and positive in 2019, despite that the nationwide contracted sales of properties may fall as impacted by the slowing domestic economic growth.

To encounter the generally slowing economy, the government has launched easing policies releasing liquidity to the financial market. We reckon that the easing policies applied mostly on the financing to non-property development sectors. Government authorities aim to maintain the long-term stability of the property market through various regulatory restrictions. In 2019, we expect no further tightening controls but fine-tuning measures taken by local governments based on the conditions of the local markets. In spite of continuing controls over mortgage loans to homebuyers and lending to developers, we take note of banking supports on first-home mortgages.

Facing the challenges that constrain cash flow of the Group by the restrictive policies, management is specifically attentive on the Group's expansion strategies. When considering project or land acquisition, we will penetrate into regions in which we have good experience and will focus in the development of properties for first-time buyers in second-tier cities which are not vulnerable to control measures than in the first-tier cities. Our youth community projects in Nanning and Xuzhou aligns with these market specialities and are less affected by austerity measures. Sales in Nanning and Xuzhou in 2018 are within our expectation. In 2018, total contracted sales of the Group reached RMB9.37 billion, representing 17% increase from the annual target of RMB8.0 billion. We believed contracted sales in 2019 will outperform 2018, given the expanded GFA in our property portfolio and the new projects in our potential land reserve or new acquisitions. The upcoming GFA that will be launched for presales in 2019 covers mainly 6 projects operated by subsidiaries of the Group, namely, Chongqing Project, Nanning ASEAN Maker Town Project, Zhongshan Skyfame Rainbow, Xuzhou Skyfame Elegance Garden, Zhoutouzui Project, and the newly acquired Kunming Project, and one project, namely Nanning Impression of Sandalwood, operated by a joint venture. Despite the slowing demand in the property market, the management is confident to target an annual sale level of RMB12.0 billion in 2019, representing a 28% increase from the sales in 2018.

In the midst of the slowdown in markets and tighter cash collections, we emphasise on striking an optimal balance between land bank building and liquidity of the Company. Our budget for land acquisitions is set on a feasible and affordable proportion to the available cash generated from internal operations and funding from debts and equity that can be raised by the Group from time to time. The Company's capacities in fund raising have been expanded. Further, following the regulatory authorities' recent announcements about relaxing controls that will add liquidity to the capital markets, we expect the funding situation to developers in 2019 will be relieved to a certain extent.

MANAGEMENT DISCUSSION AND ANALYSIS

Skyfame is building up a brand name in its development of projects of youth communities specially designed to satisfy the living needs of young home buyers, ranging from accommodation to other living needs of occupants in the communities. Our first co-work place of approximately GFA 2,000 sq.m. situates in the commercial podium at Tianyu Garden II in Guangzhou was opened in 2017 and is a successful pioneer project. In 2018, we opened the second co-work place of approximately GFA 2,000 sq.m. in the recently completed Nanning Skyfame Garden to cater for the business needs of entrepreneurs living nearby. The co-work place together with the relevant premises are now 79% occupied and provides steady and sustainable service income amounting to RMB8.4 million for 2018 to the Group. Our co-work places serve a target population of a total of approximately 14,000 households living in the six youth community developments, completed or under construction, in Guangzhou, Nanning, Chongqing and Xuzhou.

We also had strategic collaboration with 惠普企業集團 (Hewlett-Packard Enterprise Corporation*) which brings in data communication knowhow and solutions in building up an operating platform, enhancing a smart living and working environment to the occupants and visitors of our Chongqing Project.

In 2018, the Group has initiated its plan to operate a hospital that is being built in a walking distance from our three projects in Nanning for the provision of high quality medical care to the population in the region. The hospital also serves as a training ground for nourishing managers and practitioners in the medical field in our future youth community projects. The Group is ambitious to equip the hospital to extend its high quality medical care to the community in the region which is currently having a population of 300,000. The construction works will be completed in 2020 when the hospital in its first phase of operation with a capacity of 300 beds will be opened. Alongside all these investments in commercial operations, we will keep seeking collaboration opportunities with other suitable renowned operators in the fields of entertainment, education and medical care to add value to our youth community projects.

E. FINANCIAL REVIEW

Sales Turnover and Margins

Property sales of the Group achieved another record of RMB6,122.4 million for the year, a 51.4% increase of last year. During the year, the Group had delivered GFA totalling approximately 583,000 sq.m. of properties in Zhoutouzui Project, Nanning Skyfame Garden, Nanning Skyfame ASEAN Maker Town and Chongqing Project at an average overall gross selling price of RMB11,200 per sq.m. delivered (2017: 19,700 per sq m.).

Gross margin on property sales is 30.0% (2017: 21.2%). Profitability for the year improves due to higher selling prices generally commanded on properties delivered during the year in Nanning Skyfame ASEAN Maker Town and Zhoutouzui Project, driving up the profit margins for the year.

The leasing of properties, mainly at the commercial podium at Tianyu Garden Phase II in Guangzhou, 800 car parks at Zhoutouzui and offices at Capital Centre in Wanchai, Hong Kong, contributed a stable revenue of RMB19.6 million to the Group for the year. The income for the year presents a mild increase of 11.2% from last year. The floor area on lease is reduced as floor area of 4,000 sq. m. are retained by the Group for the operations of co-work places. The leasing activities bring a stable margin of 86.2% to the Group (2017: 89.7%).

MANAGEMENT DISCUSSION AND ANALYSIS

The property management company provides income of RMB41.4 million for the year (2017: RMB20.1 million), representing a 105.6% growth due to the increase in area managed by our property management team that is approximately 1,601,000 sq.m. at the year-end date. The operation enjoys a margin of 54.6% (2017: 49.1%).

The Group's commercial operations, the fourth business segment newly started up, currently cover two operating co-work places in Guangzhou and Nanning, and a hospital under construction. Service income earned from the operations of co-work places amounted to RMB8.4 million for the year.

Due to the general improvements in margins in the three concurrent segments, overall gross margin of the Group for the year rose to 30.5% (2017: 21.6%).

Operating Expenses

Given the higher contracted sales, advertising, sale and marketing expenses for the year surged by 2.6% to RMB156.9 million (2017: RMB152.9 million), whilst commission to sale agencies recorded a lower level at RMB71.7 million (2017: RMB89.9 million). The drop is due to commission of RMB59.5 million paid for contracted sales on properties that will be delivered to customers in the coming 2019 and 2020 are accounted as expenses in the year of delivery instead of as expenses for the current year as they are incurred.

Administrative and other operating expenses, amounting to RMB305.7 million, rose 39.1%, of which the key item, staff costs, constituted 62.1%. The rise in staff costs was caused by the increase in number of headcounts and staffing in managerial grades. Total staff costs during the year amounted to RMB240.1 million (2017: RMB180.1 million), of which RMB36.9 million (2017: RMB47.4 million) were capitalized as development costs of properties under development.

Finance Costs

Finance costs, representing arrangement fees and interests incurred on indebtedness, amounted to RMB559.1 million for the year (2017: RMB332.6 million). The rise in costs is in pace with the increase in indebtedness of the Group. Most of the finance costs incurred were capitalized as costs of projects under development with only RMB53.9 million charged against the operating results for the year. The overall annualized borrowing cost, being interests and arranging fees divided by total indebtedness, is 9.1% (2017: 8.4%),

Non-operating Items

Non-operating items include the following key items:

1. Gain of RMB81.2 million arising from the acquisition of Chonqing Project where fair values of the underlying investment properties, land and properties under development acquired were higher than purchase considerations;

2. Gain of RMB203.3 million (2017: RMB353.4 million) on revaluation of properties in Tower A1 in Zhoutouzui Project was built up and contracted to a renounced hotel operator for the operation of serviced apartments under a tenancy agreement for a term of 20 years. The last year gain refers to the revaluation of 800 car parking spaces leased to a car-park operator;

MANAGEMENT DISCUSSION AND ANALYSIS

3. As a result of depreciation of RMB, the functional currency, against the US$ and HK$ in the later of the year, unrealized loss of RMB74.2 million was recorded on conversion of offshore loans denominated in HK$ and US$ booked at closing rates. There was a gain of RMB111.9 million in last year when RMB appreciated against US$ and HK$;

4. Fair valuation increase in investment properties of RMB66.4 million (2017: RMB35.7 million);

5. Goodwill of RMB13.6 million (2017: nil) was impaired as the subject project, Zhoutouzui Project, has been completed leaving a small volume of unsold GFA and the management expects cash flow from the project will be insufficient to justify the carrying value of goodwill;

6. Net decrease of RMB1.5 million in the fair values of the derivative financial assets that are embedded in the redemption rights given to the Company attached to the Company's unsecured bonds;

7. Share of operating loss of RMB8.1 million incurred by a newly started joint venture in the development of Nanning Impression of Sandalwood Project; and

8. Early redemption of holders of bonds in principal value of RMB45.9 million during the year resulted to gains on redemption of RMB2.0 million.

Taxation

Provision in taxation included mainly provision for land appreciation tax of RMB373.1 million (2017: RMB170.8 million) on properties sold in Zhoutouzui Project, Nanning Skyfame ASEAN Maker Town Project and Chongqing Project which bear low historical land costs and provision of RMB453.9 million (2017: RMB198.3 million) for corporate income taxes on assessable earnings for the year. Deferred tax credit for the year represents reversals of deferred tax provision amounting to RMB42.3 million previously made on fair value gains on acquisitions of projects, overprovision of withholding tax amounting to RMB16.5 million on dividends paid by the Company in 2017, and deferred tax asset arising on the timing difference on LAT tax prepaid of RMB5.3 million. The credit effect was offset by deferred tax provision of RMB60.4 million made for gain on property revaluations for the year, resulting to a net credit effect of RMB3.6 million (2017: tax debit of RMB122.1 million) for the current year.

Losses/Profits Attributable to Shareholders

The Company had a consolidated after-tax profit of RMB820.8 million for the year of which profit of 751.3 million was attributable to the shareholders of the Company.

Liquidity and Financial Resources

1. Asset Base

	Change in%	**2018** **RMB'000**	2017 *RMB'000*
Total assets	30.7%	**21,236,989**	16,252,454
Net assets	38.9%	**3,303,559**	2,378,627

MANAGEMENT DISCUSSION AND ANALYSIS

Total assets of the Group reached RMB21,237.0 million, a 30.7% increase from last year-end. Properties under development, at carrying value of RMB7,554.3 million, is the biggest asset category and constitutes 35.6% of the total assets of the Group. Besides, total assets also include investment properties totalling RMB2,907.2 million, properties held for sale in Nanning Skyfame Garden Project, Nanning Skyfame ASEAN Maker Town Project, Zhoutouzui Project and phase 1 of Chongqing Project totalling RMB4,144.0 million, properties for self-use, plant and equipment totalling RMB693.9 million, trade and other receivables totalling RMB1,611.5 million, deposits and prepayments for proposed projects for sale totalling RMB994.9 million for proposed projects which are in the pipeline for development, restricted cash and pledged deposits of RMB676.6 million, and cash and cash equivalents of RMB2,410.1 million.

2. *Capital structure and liquidity*

The indebtedness of the Group, aggregated to RMB6,362.6 million at the year-end date, went up 48.4% as a result of the acquisition of Chongqing Project for which a debt due to the vendor of RMB2,300.0 million was taken up by a financial institution. Indebtedness comprised secured and unsecured borrowings from banks and financial institutions and corporate bonds issued to financial institutions and professional investors,

The maturity profile of the indebtedness are illustrated as follows:-

	Within one year *RMB'000*	1 to 2 years *RMB'000*	2 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total carrying amount *RMB'000*
Bank and other borrowings					
– Secured bank borrowings	1,108,168	48,960	176,460	294,000	1,627,588
– Other secured borrowings	1,419,778	1,622,316	–	–	3,042,094
– Unsecured borrowings	289,242	121,890	229,359	1,041,525	1,682,016
	2,817,188	1,793,166	405,819	1,335,525	6,351,698
Derivative financial liabilities	2,138	8,592	–	165	10,895
	2,819,326	1,801,758	405,819	1,335,690	6,362,593

The maturity profile of the indebtedness shows that the Group's indebtedness bears a shorter tenors than in the previous year. An aggregate amount of RMB2,819.3 million, representing 44.3% of the indebtedness (2017: 27.3%) are due to be repaid within one year. Of the debts repayable within the coming year, corporate debts of approximately RMB536 million had been early repaid or redeemed and project loans of approximately RMB334.0 million repaid on schedules after the year-end-date. The remaining short-tenor debts are mainly associated with project loans for which the repayments are expected to be sufficiently financed by cash flow generated from the operations of the relevant projects.

MANAGEMENT DISCUSSION AND ANALYSIS

Net gearing ratio, calculated as total indebtedness net of cash and cash equivalents (including restricted cash and pledged deposits, cash and cash equivalents and short-term investments secured for offshore loans (where applicable)) (the "Net Debt") divided by the equity attributable to shareholders of the Company plus Net Debt), is 53.0% as at 31 December 2018. On 31 December 2017, the gearing ratio is -0.4% as the Group virtually had no net debts after taking into account the restricted and pledged deposits.

Current assets aggregated to RMB17,524.0 million as at the year-end, a rise of 18.6% from that on 31 December 2017. The rise in current assets is explained by the increased business level and financial resources which were put in properties under development.

Current liabilities at the year-end amounted to RMB13,795.3 million, representing a rise of 31.3% from that on 31 December 2017. The rise in current liabilities is explained by the increased construction costs owed to building contractors as a result of expanded business activities and the short-term indebtedness incurred for the acquisition of Chongqing Project.

The current ratio, being 1.27 times at the year-end (2017: 1.41 times) drops. Management expects the liquidity of the Group will become stable as when the existing properties under development are realised according to the presale schedules and development timelines in the coming years.

3. *Borrowings and pledge of assets*

As at 31 December 2018, investment properties and self-use properties in Guangzhou, and Hong Kong and completed properties in Zhoutouzui, properties under development held by project companies in Xuzhou, Zhongshan and Nanning and a joint venture in Nanning are mortgaged in favour of commercial banks and financial institutions to secure for financing facilities granted to the Group for general working capital and construction costs. In addition, an onshore deposit is placed with a commercial bank to secure for an offshore loan. Equity interests in certain subsidiaries and 965,580,000 shares of the Company (having adjusted for the sub-division of shares) owned by the Company's controlling shareholder are charged as security in favour of certain financial institutions. As at 31 December 2018, aggregate outstanding balances of these secured indebtedness amounted to RMB4,670.0 million. The pledged assets or the underlying assets represented by these securities carried an aggregate estimated realizable value of approximately RMB10,011.6 million as at 31 December 2018. Management considers the securities held by the secured creditors provide sufficient financial resources to cover the Group's exposures to borrowings, and sufficient protection are available to creditors and there are further rooms for obtaining additional borrowings if required.

F. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

G. TREASURY MANAGEMENT

The Group is engaged in property development and other activities which are mainly conducted in the PRC and denominated in RMB, the functional currency of the Company's principal subsidiaries. Nonetheless, certain financing, property leasing, investment holding and administrative activities are carried out in Hong Kong and denominated in HK or US dollars. At the year-end date, the Group has Hong Kong dollar denominated borrowings and financial derivatives equivalent to RMB2,370.2 million, representing 37.3% of total indebtedness, and overseas properties for self-use and leasing in Hong Kong with carrying value equivalent to RMB131.5 million. Other assets and liabilities in material values are all denominated in RMB.

In contrast with 2017 when RMB generally appreciated throughout the year, RMB depreciated broadly against HK and US dollars by around 4.8% and 5.0% in 2018. The depreciation of RMB in 2018 has led to unrealized foreign exchange losses of RMB74.2 million on conversion of liabilities denominated in foreign currencies to RMB in the financial accounts. In addition, exchange differences arising from consolidation of assets and liabilities of a subsidiary operating in Hong Kong results to an exchange gain of RMB4.0 million recorded as exchange reserve that forms part of the equity of the Company.

In the backdrop of the trade disputes between the US and China, management foresees the political issue and other global economic developments will bring uncertainties in the movements of RMB, ie. RMB may move in both directions. This will bring pressure or uncertainties to the profitability of the Group. As the Group's operations are mostly conducted in the PRC, there lacks natural hedges against possible depreciation of RMB. The management will from time to time take deep considerations on financial tools available in the monetary markets and allocation of investments in different territories to manage foreign currency exposures.

H. RISK MANAGEMENT

We face lots of business risks as a mainland developer. The continuing austerity measures imposed on the property sector restrict demand of home buyers and lending to developers, which has put constraints on developers' cash flow. To overcome the challenges, our management is placing specific controls in new investments and the monitoring of financial resources of the Group. It also takes regular managerial reviews of the financial and business position of the Group. The standing risk management committee set up by the board since 2016 guides the management team to implement controls in the daily operational process for the purpose of alleviating or avoiding risks. During the year, key risks had been identified by the committee, and appropriate countering measures were developed to counter these risks.

I. EMPLOYEES

The Group recruits suitable staff in capable caliber to fill vacancies created as a result of the growing business. As at 31 December 2018, including three executive directors of the Company, the Group employed a total of 940 full-time staff, of which 214 work in site offices, 16 in commercial operations, 164 in the head office in Guangzhou and Hong Kong for central management and supporting work for the property development business and 546 full-time staff in the property management offices in Chongqing, Guangdong province, Xuzhou, Nanning and Kunming. Employees are remunerated according to qualifications and experience, job nature and performance. They are incentivized by cash bonuses and shares awards benchmarked on performance targets, and options to acquire shares of the Company. Besides, training programs are offered to management trainees and staff at all levels. Remuneration packages are aligned with job markets in the business territories where the staff are located.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Aged 54, joined the Company in December 2004 when he took control of the Company through acquisition of a controlling interest in the Company. Mr. YU has been the controlling shareholder of the Company ever since then. Mr. YU has over 29 years of experience in the development of high-end residential, commercial and hotel projects in the PRC. He is a founder of the prestigious real estate company, 廣州天譽控股集團有限公司 (Guangzhou Tianyu Holdings Group Company Limited*) (前稱廣州市天譽房地產開發有限公司, formerly known as Guangzhou Tianyu Real Estate Development Company Limited* (“**GZ Tianyu**”)), which was set up in July 1997 and from which the Company acquired some real estate projects in Guangzhou in 2007. Mr. YU also acts as the chief executive officer of the Company, overseeing the strategic planning and corporate development of the Group.

Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Aged 50, was appointed as executive director in November 2013. Mr. WEN is also the Deputy Chief Executive Officer of the Group and President of the Guangzhou head office overall in charge of all the operations of the property development business in the PRC. Mr. WEN holds a Bachelor Degree in History from Beijing University (北京大學) and is a professionally qualified economist specialized in labor economics in the PRC. He has over 28 years of working experience in managerial positions in corporations in the PRC. Before transferred to the Group, Mr. WEN joined GZ Tianyu in March 1999.

Mr. WANG Chenghua
Aged 41, joined the Group in March 2018 and was appointed as executive director in October 2018. Mr. WANG is also the President of the Group in charge of the Company’s merger and acquisition, corporate finance, overseas investment and business explorations. Mr. WANG holds a Master Degree in economic and obtained a Level C Certificate from International Project Management Association (IPMA) in 2003. Mr. WANG is also a member of CPA Australia. Prior to joining the Company, he has over 11 years of working experience in merger and acquisition, corporate finance and finance management in a Global 500 company.

NON-EXECUTIVE DIRECTOR

Mr. WONG Lok
Aged 61, joined the Company in August 2005 as an executive director and was re-designated as non-executive director in January 2019. Mr. WONG has over 33 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOY Shu Kwan

Aged 64, joined the Company in December 2004. Mr. CHOY holds a Master Degree in Business Administration and has over 27 years of extensive experience in banking and investment management. He worked for the CITIC group for 20 years in Hong Kong. Before his retirement in 2007, he was the managing director of CITIC Capital Markets Limited. Mr. CHOY is also an independent non-executive director of Poly Property Group Co., Limited (Stock code: 119).

Mr. CHENG Wing Keung, Raymond

Aged 59, joined the Company in December 2004. Mr. CHENG is a practising solicitor in Hong Kong. He holds an honour degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. CHENG also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, the PRC. He has been appointed by the Hon Chief Justice Ma of the Court of Final Appeal as a Practising Solicitor Member of the Solicitors Disciplinary Tribunal Panel with effect from 4 October 2017. Besides, Mr. CHENG has also been appointed by The Government of the Hong Kong Special Administrative Region as a member of the Panel of the Board of Review (Inland Revenue Ordinance) with effect from 1 January 2018. Mr. CHENG has over 31 years of experience in legal, corporate finance, company secretarial and listing affairs. He is an independent non-executive director in a listed company in Hong Kong, namely Elife Holdings Limited (Stock code: 223).

Ms. CHUNG Lai Fong

Aged 51, joined the Company in December 2004. Ms. CHUNG is a practising barrister in Hong Kong. She holds a Bachelor of Laws (Honours) Degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. Ms. CHUNG is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 23 years of professional experience in accounting, taxation, company secretarial, legal, regulatory and corporate affairs.

COMPANY SECRETARY

Ms. CHEUNG Lin Shun

Aged 56, joined the company in March 2005 and has been the Company Secretary of the Company since then. Ms CHEUNG is also the Vice President in charge of all finance affairs at the corporate level of the Group. Ms. CHEUNG is a professionally qualified accountant in Hong Kong. She holds a Master Degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. CHEUNG is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 33 years of experience in auditing in a big four accounting firm, and corporate secretarial, accounting and corporate finance fields in a number of listed companies in Hong Kong.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LIN Shengjie
Aged 53, is the Vice President of the Guangzhou head office in charge of all onshore financing in the PRC. Mr. LIN is a Bachelor Degree graduate in finance and accountancy of Guangdong University of Finance & Economics (廣東財經大學) (Formerly known as Guangdong University of Business Studies (廣東商學院)) and has over 28 years of working experience in the finance and accounting in property development, direct investments in the PRC, Thailand and Hong Kong. Before transferred to the Group. Mr. LIN joined GZ Tianyu in January 2002.

Mr. XIE Xiaohua
Aged 48, joined the Group in February 2014 and is the Vice President of Guangzhou head office in charge of general project management, costing and coordinate the operations of projects. Mr. XIE graduated from Sun Yat-sen University (中山大學) with a Doctor's Degree in Science and holds a senior engineer certificate for geotechnical engineering. He has over 24 years of working experience in the area of engineering management in overall project development.

Mr. ZENG Fanyou
Aged 43, joined the Group in June 2016 and is the Vice President of Guangzhou head office in charge of sales and marketing management of property development and oversees the commercial operations in youth community project. Mr. ZENG graduated from Henan University School of Economics (河南財經學院) with a Bachelor's Degree in Economics and holds a Project Management Professional certificate. He has 18 years of working experience in property sales and marketing in the PRC, working for Zhu Jiang Real Estate Development Co., Ltd. and New World China Land Limited in the past.

Mr. TAN Yongqiang
Aged 55, joined the Group in October 2016 and is the Vice President of Guangzhou head office in charge of city development business that focuses on the urban renewal projects in Guangzhou. Mr. TAN graduated from South China University of Technology (華南理工大學) with a Bachelor's Degree in Industrial and Civil Construction. He is also a postgraduate in Business Administration from Western Sydney University. Mr. TAN has over 22 years of working experience in the area of project management and has worked in large-scale group in the PRC such as Yuexiu Group (越秀集團).

Mr. CHEN Jianwen
Aged 39, joined the Group in August 2018 and is the Vice President of Guangzhou head office in charge of the planning and management of financial accounting, treasury and tax affairs of PRC operations. Mr. CHEN graduated from Sun Yat-sen University (中山大學) with a Bachelor's Degree in management. He also holds the certificates of the Chinese Certified Public Accountant (CPA), Certified Tax Agents (CTA) and the Certified Internal Auditor (CIA). Mr. CHEN has worked in one of the big four international accounting firms as well as many well-known and listed real estate groups in China as a senior financial management. He has over 16 years of solid experiences in financial management.

Mr. SONG Tianyu
Aged 36, joined the Group in December 2018 and is the Assistant President of Guangzhou head office in charge of human resources and administrative management. Mr. SONG graduated in Jilin Commercial College major in food and beverage. He has over 12 years of experience in administrative management in a Global 500 company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Environmental, Social and Governance Report ("**the Report**") summarizes the proposals, plans and performance of Skyfame Realty (Holdings) Limited ("**the Company**") and its subsidiaries (collectively "**the Group**" or "**we**") in environmental, social and governance ("**ESG**"), and their commitments to sustainable development.

As a domestic real estate enterprise listed in Hong Kong, the Group adheres to the policy on a sustainable ESG approach, promises to deal with the matters related to environment, society and governance of the Group effectively and responsibly, and regards the aforesaid two actions as a core part of our business strategy, because the Group believes that, only in this way, can the Group develop, grow and make contribution not only in economic development, but also in the environment and society.

The ESG Governance Structure

As at the year ended on 31 December 2018 ("**the reporting period**"), the Group established a ESG working team ("**the working team**"). The working team consists of the core members from departments of the Group, responsible for collecting relevant materials and data on ESG aspects to prepare the ESG Report. The working team reports to the Board of Directors regularly to assist the Group in identifying and assessing the risk in ESG, as well as assessing the effectiveness of the Group's internal control mechanism for ESG. The working team will also check and assess our different performance in environment, occupational safety and health, labour standards, product responsibilities, and other aspects within the scope of ESG. The Board of Directors decides the orientation for the Group's ESG strategy and guarantees the effectiveness of the mechanism for ESG risk control and internal control.

SCOPE OF REPORTING

The Report mainly concentrates on the Group's core business in the mainland China, including but not limited to dormitories, offices, model houses, sales departments, and property management companies. Data was collected from the Group's core operating sites, including but not limited to Guangzhou, Nanning, Xuzhou, Zhongshan, Yongzhou, Shenzhen, Shunde, and Hong Kong. As the two co-work places, namely "Yuwo Spaces", in Guangzhou and Nanning are new projects and only have minimal environmental impact, therefore their data disclosure are only restricted to the social data of Subject Area B. Unless specified otherwise, we obtained the ESG key performance indicator ("**KPI**") through the Group's operation control mechanism. When the Group has a more mature data collection system and has deepened the work in sustainable development, we will continue expanding the scope of disclosure in the future.

REPORTING FRAMEWORK

The Report was prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide ("**ESG Reporting Guide**" or "**Reporting Guide**") to the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited.

REPORTING PERIOD

The Report elaborates on the Group's ESG events, challenges and measures as at the year ended on 31 December 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Skyfame Realty (Holdings) Limited's Achievements in Corporate Sustainability

Attain
3,600+
employee training hours

Actively develop youth community projects and co-work places, providing services to **over 14,000** households

Increase in employee number by
27%

>76%
are young and energetic employees
(Note: Employees below 40 years old are defined as young and energetic employees)

Awarded the "2018 China Real Estate Comprehensive Development Professional Leading Brand Value
TOP IO
- City Youth Innovation Service"

TOP IO

Ranked **176th** in the list of "2018 China Real Estate Development Enterprises Top 500"

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

The stakeholders' participation is an indispensable process for the Group to continue improving its sustainable development performance. Therefore, we value all stakeholders and their opinions on our matters related to ESG. Through the participation of stakeholders and communication channels, the expectations of stakeholders are integrated into our operation and ESG strategies. In order to comprehensively understand, respond to and deal with the major concerns of different stakeholders, we communicate closely with them - including but not limited to shareholders and investors, customers, suppliers, contractors, consultants, employees, government and regulators, peers and peer chambers as well as social groups, non-government institutions and media, committed to improving the Group's ESG performance and creating more values for our country and society in sustainable development.

The stakeholders' participation and communication channels are as follows:

Major Stakeholder	Communication Channel
Shareholders and investors	Shareholders' annual general meetings
	Annual reports and interim reports
	Announcements and circulars
Customers	Customer satisfaction surveys and feedback forms
	Customer service hotline
	Customer service centre
	Relationship managers
Suppliers	Supplier management meetings and events
	Supplier on-site audit management policy
Contractors	Contractor management meetings and events
	Contractor on-site audit management policy
Consultants	Regular consulting meetings
	Field visits
Employees	Employee opinion survey
	Channels for employees to express their opinions (such as forms and suggestion boxes)
	Regular management communication and performance assessment
	Intranet
Government and regulators	Regular reports of performance
	Field visits
Peers and peer chambers	Industrial meetings and lectures
Social groups, non-government institutions and media	Public and community events and partnership plans for different topics
	Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT (continued)

When developing operation strategies and proposing measures for ESG, the Group will consider the expectations of stakeholders, improve its performance continuously through cooperation, and create more values for society.

MATERIALITY ASSESSMENT

The management and employees that perform major functions in the Group have participated in preparing the Report to assist the Group in reflecting on its operation, identifying matters related to environment, society and governance, and assessing the importance of relevant matters to the Group's business and stakeholders. We prepared a questionnaire based on the key matters related to environment, society and governance that had been assessed and collected data from relevant departments and business institutions of the Group.

The following table is a summary of the Group's material ESG matters in the Report:

Reporting Guide	Material ESG Aspects of the Group
A. Environmental	
A1. Emissions	Exhaust gas emissions
	Greenhouse gas emissions
	Waste treatment
A2. Use of resources	Energy consumption
A3. The environment and natural resources	Green construction
B.Social	
B1. Employment	Salary and benefits
	Recruitment, promotion and dismissal
B2. Health and safety	Occupational safety and health
	Occupational safety training and employee health management
B3. Development and training	Training management
B4. Labour standards	Preventing engagement of child labour or force labour
B5. Supply chain management	Fair and open procurement
	Commercial ethics

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT (continued)

Reporting Guide	Material ESG Aspects of the Group
B6. Product responsibility	Quality control
	Customer service and privacy
	Intellectual property
	Advertisements and labels
B7. Anti-corruption	Anti-corruption
B8. Community investment	Corporate social responsibility

As at the year ended on 31 December 2018, the Group confirmed that it had established appropriate and effective management policies and monitoring systems for ESG matters and confirmed that all the contents disclosed were compliant with the requirements in the Report Guidelines.

CONTACT US

Any opinions and suggestions from stakeholders are appreciated by the Group. You are welcome to provide your valuable opinions on the ESG Report or the performance in sustainable development and send them to cs@sfr59.com.

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and KPI

The Group attaches great importance to good environmental management and strives to protect the environment in order to fulfil its social responsibility. The Group has established an environmental protection organization and management system. When implementing the ISO14001 environmental management system, it has established a sound construction environment management system to achieve the systematization and standardization of construction environment management. In its operations, the Group also pays special attention to the emission of exhaust gas and greenhouse gases, noise management, drainage and sewage produced during the construction process in order to reduce emissions and minimize negative impacts on the environment. We have also established a relevant environmental management system and actively take environmental protection measures for environmental pollution generated in the course of operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

During the reporting period, the Group did not have any violations of relevant local environmental laws and regulations, including, but not limited to, the *Environmental Protection Law of the People's Republic of China* (《中華人民共和國環境保護法》), the *Law of the People's Republic of China on Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》), the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution* (《中華人民共和國大氣污染防治法》), the *Law of the People's Republic of China on the Prevention and Control of Pollution by Environmental Noise* (《中華人民共和國環境噪聲污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and the *Waste Disposal Ordinance* (《廢物處置條例》) concerning emissions of exhaust gases and greenhouse gases, discharge to water and land, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group.

The Group has formulated an environmental protection management system to determine the environmental protection objectives in the tenure objectives of project managers and the breakdown, quantified and implementable sub-objectives or phased objectives. The project manager will verify and determine the environmental sensitive points, environmental protection objectives and corresponding environmental regulations and other requirements according to the actual situation on site. In addition, the project manager will identify environmental factors, determine, change and update the major environmental factors, in each construction stage and construction activities, including the renewal of the process and the use of raw materials, so as to identify the major factors affecting the environment and formulate a targeted and feasible environmental protection work plans. During the construction process, if the project content and environmental requirements are changed, specific measures of environmental protection shall be adjusted accordingly, including but not limited to technical management and specific environmental protection measures, such as noise control measures, drainage, sewage management measures, garbage management measures, resource management measures, dust control measures and bulk material transportation measures, in order to find out feasible and effective environmental protection plans to reduce the impact on the community and even the natural ecology.

The Group has set up *Guidelines for Construction Control of Water Supply and Drainage Engineering* (《給排水工程施工管控工作指引》), to let project site engineers be familiar with the construction technology of water supply and drainage engineering, and to master the prevention and treatment methods of common quality problems, so as to improve the quality of water supply and drainage construction. In the guidelines, the construction requirements for relevant materials, preparation before outdoor drainage construction, outdoor water supply construction, outdoor water drainage, indoor water supply, etc. are specified.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

In addition, the Group has included environmental protection as a consideration in the Risk Management System (《風險管理制度》). The Risk Management Committee shall hold meetings at least once a year to consider the most significant risks faced by the Company, the corresponding measures and updates of risk management. The Group has made effective controls on pollutants such as waste water, exhaust gas, noise and waste generated in the production and office processes, managed waste in an orderly manner, supervised the implementation of environmental protection measures by various departments, and implemented an effective environmental management system to realize the environmental objectives and guidelines of the Group.

Exhaust gas emissions

In the course of the Group's business operation, exhaust gas emissions mainly come from automobile exhaust emissions. Although all construction projects are developed by contractors, so that there are no emissions from construction projects in our business operations, as responsible real estate developers, we are aware of the potential environmental impact of construction projects. Therefore, we have also set up measures related to construction project emissions in order to achieve win-win cooperation and harmonious coexistence with the community.

During the reporting period, the performance of exhaust emissions is summarized as follows:

Exhaust Gas Type	Total Emissions (kg)
NO_x	129.17
SO_x	2.71
PM	12.32

Due to business growth, the Group's emissions increased as compared the year of 2017 year. In response to the above emission sources, we take the following emission reduction measures:

Automobile exhaust

Vehicles owned by the Group mainly serve business needs to provide shuttle services to employees and customers, and assist project managers in construction site inspection. We have formulated the Guidelines for *Vehicle Management Operations* (《車輛管理作業指引》) to strengthen the Company's vehicle management and improve vehicle efficiency. The scope of management includes:

- The full-time driver checks the mileage of the vehicle and registers the detailed information immediately after completing the driving task.
- The President's Office, the Administration and Personnel Department or the General Department shall designate special personnel to make statistics and check the oil consumption of vehicles together with drivers on a regular basis; and
- Overhauling the vehicles regularly to effectively reduce fuel consumption, thus reducing carbon emissions and exhaust emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

Exhaust emissions (continued)

Architectural engineering

The exhaust gases from construction projects are mainly dust generated during civil construction, exhaust gases emitted from various construction machinery and transport vehicles, and organic exhaust gases generated during renovation. The control measures we have taken include, but are not limited to, the following:

- For all dust-prone processes, dust-control, dust-isolation and ventilation measures shall be taken to ensure that the dust content discharged into the atmosphere meets the national industrial hygiene standards, so that residents can have a beautiful, fresh and comfortable environment;

- Construction site hardening and greening and frequent sprinkling and watering to reduce dust pollution;

- It is strictly prohibited to throw garbage out of buildings, all garbage shall be bagged and transported away; and

- There is a car wash platform at the main entrance and exit of the site, transport vehicles must be washed before leaving the site.

Greenhouse gas emissions

The Group's major greenhouse gas emissions come from direct greenhouse gas emissions from gasoline consumed in transportation and diesel consumed in backup generators (Scope I) and indirect greenhouse gas emissions from energy sources purchased from electricity (Scope II). The following table provides an overview of the performance of greenhouse gas emissions:

Indicator[1]	Total Emissions (tonnes CO_2 equivalent)	Intensity[2] (tonnes CO_2 equivalent/ RMB1 million) of revenue
Direct greenhouse gas emissions (Scope I)	503.44	0.08
Indirect greenhouse gas emissions (Scope II)	7,176.43	1.16
Total greenhouse gas emissions (Scope I and II)	7,679.87	1.24

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

General Disclosure and KPI (continued)

Greenhouse gas emissions (continued)

Notes:

1. Greenhouse gas emission data are presented in terms of carbon dioxide equivalence with the reference to, including but not limited to, the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (《溫室氣體盤查議定書：企業會計與報告標準》) published by the World Resources Institute and the World Business Council for Sustainable Development, and *How to Prepare Environmental, Social and Governance Reports? – Appendix II: Guidelines for Reporting Key Environmental Performance Indicators* (《如何準備環境、社會及管治報告？－ 附錄二：環境關鍵績效指標彙報指引》) released by Hong Kong Exchanges, the newly released baseline emission factors of China's regional power grid and the global warming potential of the *Fifth Assessment Report* (《第五次評估報告》) issued by the Intergovernmental Panel on Climate Change.

2. As of 31 December 2018, the Group's revenue was approximately RMB6,192 million.

Due to business growth, the Group's carbon emissions in electricity consumption have increased considerably. We have actively adopted electricity-saving and energy-saving measures to reduce greenhouse gas emissions, including:

- Reducing carbon emissions from automobile exhaust, of which the detailed measures have been described in the section "Exhaust gas emissions - Automobile exhaust" above; and

- At the operational level, actively adopting environmental protection and energy saving measures, of which relevant measures will be explained in the section "Energy consumption" in Aspect A2.

Through the above measures, employees' awareness of emission reduction and carbon reduction has been enhanced.

Sewage discharge

Domestic waste water is the Group's main source of sewage. The management of production and sewage discharge on construction sites is supervised by the General Contracting Management Department and taken charge of by the General Contracting Coordination Management Department. The treatment methods related to sewage discharge on construction sites are as follows:

- Discharge ditches shall be set up in accordance with the standards on construction sites, and sedimentation tanks shall be set up at the entrance of construction sites, and sewage shall be discharged into the municipal sewage pipeline system after sedimentation;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

Sewage discharge (continued)

- During foundation construction, the Operations Department shall select qualified sludge discharging units to remove the sludge;
- Sewage from flushing mixers and transport vehicles on project sites can be discharged into municipal pipelines after sedimentation; and
- On-site cleaners shall be responsible for checking and cleaning the sediments in the sedimentation tank on a regular basis.

Domestic sewage

Waste water generated in our daily life is mainly toilet-flushing waste water. The Group has set up drainage pipes for domestic washing waste water. Domestic waste water is generally discharged into municipal pipelines and treated centrally by local sewage treatment plants. The sewage treatment methods are as follows:

- Washing tanks must be built in the canteen of the Operations Department, as well as vegetable washing tanks, sedimentation tanks and canteen oil separating tanks according to relevant regulations. Oily sewage shall be separated by oil separating tanks and then discharged into municipal sewage pipelines. Oil separating tanks shall be cleaned regularly;
- For toilet flushing waste water, we have set up septic tanks. Waste water is fermented and isolated before being discharged to local sewage pipelines. At the same time, septic tanks are regularly cleaned up by the local environmental sanitation department;
- When sewage discharge facilities are damaged, timely remedial measures shall be taken to replace the damaged drainage facilities to control and reduce the impact on the surrounding and social environment; and
- When receiving relevant complaints, we shall immediately identify the reasons, formulate corrective measures, and make corrections as required, and at the same time transmit the information to relevant parties.

Performance of waste water discharge during the reporting period is shown as follows:

Types of Waste Water	Total Discharge (cubic metres)	Intensity[1] (cubic metres/ RMB1 million) of revenue
Domestic sewage	448,777.00	72.48

Note:

1. As of 31 December 2018, the Group's revenue was approximately RMB6,192 million.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

Domestic sewage (continued)

Waste treatment

The Group identifies and classifies wastes, designates persons responsible for the management to waste disposal in a timely manner, and maintains environmental sanitation around the collection box. We have relevant measures to regulate wastes generated in the operation process, especially in the construction process. The specific measures are as follows:

- Establish construction waste disposal archives and file the implementation situation of construction waste disposal on construction sites; and

- Set up a company safety and civilization inspection team to inspect the waste disposal on the construction project site at the same time of safety and civilization inspection, rectify the non-conformity within a time limit and issue rectification notices.

All kinds of waste disposed shall be strictly in accordance with the provisions of the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* (《中華人民共和國固體廢物污染環境防治法》) and the *Administrative Measures for Urban Living Garbage* (《城市生活垃圾管理辦法》).

Non-hazardous waste

For non-hazardous wastes generated in the operation process, the Group adopts the method of waste classification and recycling, classifies and stacks the recyclable waste, such as steel, timber and so on, in order to facilitate recycling. Construction wastes, domestic wastes and office wastes generated on the construction site will be classified, stacked and disposed according to the regulations, and special personnel will be assigned to clean up. Workers shall not directly throw rubbish downstairs when removing construction wastes; they shall place wastes in corresponding places. For domestic and office wastes, personnel and vehicles of the Environmental Sanitation Management Department shall collect and discharge the wastes every day, and they shall not stack the wastes everywhere or put the wastes on hold for a long time. Leftovers of canteens shall be poured into special recycling bins, shall not be dumped everywhere, and shall be handled by special persons. We will educate all personnel to abide by the hygiene system, and impose certain fines on those who litter if their education fails repeatedly.

In order to further promote waste reduction, we have set up *Regulations on the Management of Office Order* (《辦公秩序管理規定》), in which management departments actively promote paperless office management, and earnestly do a good job in fine management of printing paper, ink cartridges and toner cartridges consumables. Printing paper requires double-sided printing or photocopying, so as to reduce unnecessary waste of resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A1. Emissions (continued)

Non-hazardous waste (continued)

Types of Non-hazardous Waste	Total Discharge[1] (tonnes)	Intensity[2] (tonnes/ RMB1 million) of revenue
General domestic waste	2,223.50	0.36

Notes:

1. Total amount of discharge has been deducted from the amount recycled.

2. As of 31 December 2018, the Group's revenue was approximately RMB6,192 million.

Through the above measures and policies, employees' awareness of waste reduction has been improved.

Hazardous waste
In the operation process, we try our best to reduce or avoid the use of hazardous substances or construction methods that may produce hazardous waste. Effective isolation measures shall be taken for corrosive and poisonous wastes produced on construction sites, and the wastes shall be disposed of before being discharged in order to avoid significant environmental pollution. Under normal operating conditions, our offices will not produce any hazardous wastes, but the Group still has relevant guidelines, such as the storage of hazardous chemicals shall be implemented in accordance with the requirements of the *Hazardous Chemicals Management System* (《化學危險物品管理制度》), in case of emergencies, and other toxic and hazardous office wastes in the operation process shall also be handled by specialised personnel.

A2. Use of resources

General Disclosure and KPI
The Group aims to actively promote the effective use of resources, monitor the potential impact of business operations on the environment, promote green business environment, and minimize the negative impact of the Group's and its subsidiaries' operations on the environment. The Group adheres to the rational and efficient use of resources, and has formulated *Instructions for Public Energy Consumption Management* (《公共能耗管理作業指導書》) to standardize the energy consumption statistics, ensures the accuracy of energy consumption statistics and rapid information feedbacks, and maintains the monitoring of energy consumption. Through the analysis of the data, relevant effective measures are taken to reduce energy consumption, reduce costs and improve management level on the premise, as well as ensuring the safety, comfortability and convenience in the living environment of project operators.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A2. Use of resources (continued)

General Disclosure and KPI (continued)

The Group manages the use of water, electricity, oil, gas and other energy resources, and conducts statistical and comparative analysis. As the Group maintains monthly analysis of energy statistics, when data anomalies occur, the reasons for data anomalies will be found out in time and analysed and corrected. When the abnormal fluctuation of energy consumption data is found to be large, personnel will be immediately organized to investigate the causes, focusing on the inspection of transmission lines, water pipelines, energy-using equipment, in order to find out problems in time, take appropriate measures to deal with the abnormal situation, and report to the project manager and the competent department of the Company.

In addition, the Group has *Regulations on the Management of Office Order* (《辦公秩序管理規定》), requiring employees to shut down their own office equipment in time off work and to check whether there is any abnormal office equipment in their department. When working overtime, the last personnel leave the office area shall be responsible for turning off the Company's public equipment power supply, public lighting, etc., and checking whether the office door is locked before leaving. In order to achieve sustainable environmental development, the Group will also regularly disseminate environmental protection messages and practical suggestions on environmental lifestyle to its employees, so that they can enhance their awareness of environmental protection and practice environmental protection during working hours.

<u>Energy consumption</u>

In daily production and operation, the Group's main energy consumption is production power consumption and domestic power consumption. The Group implements relevant energy use efficiency plans to achieve the goals of saving electricity and effectively using electricity. The specific measures are as follows:

- Lighting, computers, air conditioners, fans and other energy-consuming equipment in office places, dormitories and equipment rooms shall be turned off if not in use to save electricity;

- Energy-saving light sources are generally used in public areas, such as lighting in gardens, fire escape ladders, elevator halls and garages;

- Energy-saving lightings and sound-control switches are used for tower lighting, and the switching time is controlled by timing switches. The switching time is adjusted according to different seasons, and the shortest opening time is set to satisfy the lighting requirements in the public area of the tower;

- The switching time of street lamps and basement lighting in the park is controlled by timing switches. The time-controlled switching time is adjusted according to different seasons, and the shortest switching time is set to satisfy the lighting of the park and basements;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A2. Use of resources (continued)

General Disclosure and KPI (continued)

Energy consumption (continued)

- Fins and filters of coil fans of air conditioners are cleaned regularly, the insulation effect of the refrigeration pipeline is checked regularly, and the cooling tower is cleaned regularly to ensure the cooling effect of the cooling tower and to control the energy consumption of the central air conditioner to a minimum; and

- The ventilation system of the basement adopts timing switches to control its opening time. Without approval, the fan of the basement is not allowed to be opened at will, but it is necessary to ensure that the firefighting linkage function can be functioned in the first place under any conditions.

In addition, the Group has also posted energy-saving slogans in prominent positions to permeate the awareness of energy-saving and environmental protection into every employee's work and life, so that employees can always maintain their environmental protection awareness.

During the reporting period, the Group's consumption of electricity and other energies are:

Type of Energy	Consumption (kWh)	Intensity[3] (kWh/ RMB1 million) of revenue
Diesel[1]	52,676.33	8.51
Gasoline[2]	1,720,519.07	277.87
Electricity	13,134,987.20	2,121.28

Notes:

1. The actual consumption of diesel is 4,952.40 litres.
2. The actual consumption of gasoline is 184,489.15 litres.
3. As of 31 December 2018, the Group's revenue was approximately RMB6,192 million.

Water management

The water used by the Group is mainly domestic water in production and living areas. In order to improve the Company's water use efficiency, we have taken the following measures:

- Save water and check the leakage of pipelines and valves in the community regularly;

- Regularly check the faucets, toilets and other water appliances in public places in the community for leakage and conduct timely maintenance and replacement;

- Use water-saving water appliances;

- Check faucets and fountains for park greening regularly to eliminate leakage; and

- If any abnormal condition is found, relevant departments shall be notified to handle it in time to prevent waste of water resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A2. Use of resources (continued)

Water management (continued)

The Group has also been strengthening water-saving publicity and posting water-saving slogans to guide employees to use water rationally. Based on our operation mode and the geographical location of the operational points and offices, the Group has no problem in finding suitable water sources.

Use of packaging materials

Due to the nature of business, the Group does not use packaging materials in the operation process, so it does not use a large number of packaging materials in the daily operation process.

A3. The environment and natural resources

General Disclosure and KPI

The Group focuses on the impact of its business on the environment and natural resources. In addition to conforming to relevant environmental laws and regulations and international standards to properly protect the natural environment, the Group also incorporates the concept of environmental protection into its internal management and daily operation activities to achieve the goal of environmental sustainability.

The Group has formulated the *Operation Guideline on Engineering Quality Control* (《工程質量控制作業指引》) to implement the "Model First" method in projects. Before large-scale construction, the contractor shall, according to the requirements of the Design and Project Management Department or the Engineering Department, first construct small-scale construction models in the existing building and then carry out large-scale construction after confirmation, so as to ensure that the quality meets the design effect and avoid waste of rework.

In addition, the Group has also noted the potential environmental impacts during construction and operation, and has designated relevant guidelines, such as *Special Construction Plan for Noise Pollution Prevention and Control Safety* (《噪聲污染防治安全專項施工方案》), *Operation Guidelines on Indoor Environmental Pollutions Control* (《室內環境污染控制作業指引》), *Environmental Protection Measures for Construction Projects* (《施工項目環保措施》) and so on to reduce the impact on the community, environment and natural resources during operation.

Noise management

The *Special Construction Plan for Noise Pollution Prevention and Control Safety* (《噪聲污染防治一安全專項施工方案》) formulated by the Group includes various project requirements such as noise control objectives and indicators, precautions for noise monitoring, control measures and requirements, humanistic care measures, etc. In addition, a construction noise pollution prevention and control team will be set up during construction of the project to reduce noise pollution in the community and environment in the construction process.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (continued)

A3. The environment and natural resources (continued)

Noise management (continued)

In addition, we will set up relevant environmental protection measures for the project, including noise control measures, which includes but is not limited to the following measures:

- Project managers organize operations department personnel to implement noise control management, implement relevant management systems and procedures, provide conditions for ensuring the prevention of noise pollution, and regularly monitor noise;

- Processes that generate noise in construction are included in the *Environmental Management Plan* (《環境管理方案》), and corresponding control methods are formulated;

- Establish noise control files and file the implementation of noise control on construction sites; and

- Take effective enclosure measures to reduce the impact on the surrounding environment for some equipment and processes that produce great noise pollution.

Indoor environmental pollution control

The Group has also formulated the *Operation Guidelines on Indoor Environmental Pollutions Control* (《室內環境污染控制作業指引》) to ensure that the construction materials used comply with the government's regulations and meet environmental indicators. The responsibilities of the responsible department for bidding and purchasing, the Project Management Department or the Engineering Department are specified in the guidelines. The requirements of working procedures such as testing construction and decoration materials, process control (geological survey stage, construction stage, completion and acceptance), sales demonstration units, indoor environmental testing institutions, and testing reports are also listed to reduce indoor environmental pollution.

Green construction

Although the construction of the Group will be entrusted to the contractor, it will also pay attention to the potential environmental impact in the construction process, so it has formulated relevant green construction policies, such as *Environmental Protection Measures for Construction Projects* (《施工項目環保措施》), *Special Plan for Green Construction* (《綠色施工專項方案》), *Operation Guidelines for Abnormal Events Management* (《異常事件管理作業指引》), etc.

Environmental Protection Measures for Construction Projects (《施工項目環保措施》) contains relevant regulations on the construction process of projects, such as adopting site hardening, dust noise detection equipment and other measures to practically measure and control dust, adopting LED lighting to reduce electricity consumption and light pollution and discharging construction sewage and domestic sewage after sewage treatment.

A. ENVIRONMENTAL (continued)

A3. The environment and natural resources (continued)

Indoor environmental pollution control (continued)

Green construction (continued)

The establishment of green construction management in construction enterprises is of great significance in the field of environmental protection. Therefore, each of our projects will have a corresponding *Special Plan for Green Construction* (《綠色施工專項方案》), clearly listing the green construction objectives, organizations and responsibilities of the project's green construction management, construction deployment and specific measures for green construction. The Group regards the realization of harmonious development of nature and society as its responsibility to implement. The Group saves resources and energy, reduces pollution and ensures construction safety to the maximum extent.

The Group has formulated *Operation Guidelines for Abnormal Event Management* (《異常事件管理作業指引》) to identify potential environmental accidents or emergencies of the Group, and to make emergency preparedness measures and responses to prevent or reduce possible accompanying environmental impacts. The working procedures include the formulation of emergency plans, the implementation of preventive measures, the handling of emergencies, corrections, prevention and continuous improvement. Emergency plans will include emergency prevention, response and handling documents related to production accidents, mass incidents, thefts, fires, floods, accidental leakage of hazardous chemicals and other emergencies. When an emergency occurs, the discoverer will report orally to the Human Resources Department, the office of the project company, the responsible department and the supervisor as soon as possible. Within 24 hours after the incident, the *report of Abnormal Event* (《異常事件報告》) will be submitted to the Human Resources Department of the Group or the office of the project company.

B. SOCIAL

B1. Employment

General Disclosure

Employees are an important cornerstone of the success and prosperity of the Group, and at the same time provide the Group with a steady stream of innovative impetus. We uphold the "people-oriented" enterprise operation strategy, respect and protect the legitimate rights and interests of every employee, standardize labour employment management, protect employees' occupational health and safety, strengthen democratic management, safeguard employees' vital interests, fully respect and attach importance to stimulating employees' enthusiasm, initiative and creativity, and are committed to building a harmonious labour relationship.

In order to tie in with the expansion of the Group's business and meet our demand for talents, we recruit all kinds of suitable talents from time to time to reserve solid talents for our development. We have set up the *Human Resources Management Manual* (《人力資源管理程序》) to standardize the Company's management procedures for human resources, define responsibilities and rights, and realize scientific human resources management. The procedures set out the responsibilities of the heads of departments, the Human Resources Department of the President's Office, the personnel department of the project company, the head of the project company, the direct management of projects, the co-management leadership of the President's Office and the Chief Executive Officer of the Group. The Human Resources Department of the President's Office will develop an annual work plan for human resources, including developing the plan for salary survey analysis and adjustment; determining the annual staffing, and developing the recruitment plan; developing a training plan; developing the annual work plan for enterprise culture construction.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B1. Employment (continued)

General Disclosure (continued)

The Company has formulated relevant personnel management policies such as the *Salary Management Policy* (《薪酬管理制度》), the *Personnel Recruitment Procedure* (《人事招聘流程》), the *Regulations on Employee Entry and Exit Procedures and Transfers* (《關於員工入和離職流程及調動的規定》) and the *Staff Manual* (《員工手冊》) to create a healthy, optimistic and positive working atmosphere for employees and guide employees to actively integrate their personal pursuit into the long-term development of the Group.

During the reporting period, the Group actively abided by laws and regulations such as the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》), the *Labour Contract Law of the People's Republic of China* (《中華人民共和國勞動合同法》), as well as the *Employment Ordinance* (《僱傭條例》) of Hong Kong, and found no major violation of laws and regulations on human resources.

There are many young and energetic employees in the Group, and employees under 40 account for more than approximately 76% of the total employees. The overall number of employees rose approximately 27% from 2017. The number of employees by age group is as follows:

	Under 30	31 to 40 years old	41 to 50 years old	Above 50 years old	Total number of 2018	Total number of 2017
Headquarters/ administrative offices	35	81	38	**10**	**164**	
Project operation	47	137	24	6	**214**	
Property management	223	176	110	37	**546**	
Commercial operations	10	5	1	–	**16**	
Total number of 2018	**515**	**399**	**173**	**53**	**940**	
Total number of 2017	242	296	144	60		742

The ratio of male to female in the Group is close to 2: 1. The number of employees by gender group is as follows:

	2018		2017	
	Male	Female	Male	Female
Headquarters/administrative offices	95	69	84	70
Project operation	134	80	111	47
Property management	383	163	305	125
Commercial operations	6	10	–	–
Total	**618**	**322**	**500**	**242**

For industry reasons, there are more male employees than female employees, but the Company is committed to balancing and averaging the gender of its employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B1. Employment (continued)

General Disclosure (continued)

Salary and benefits

The Group has established a relatively fair, circular, reasonable and competitive salary policy, which is based on the principles of fairness, competition, incentives, reasonableness and legality to pay employees. The salary of the Group's employees consists of basic salary, overtime salary, performance related bonus and related subsidies. In addition, the Group will make appropriate salary adjustments every year according to inflation, living standards and market conditions.

The Group signs and performs labour contracts with employees in accordance with the *Labour Contract Law of the People's Republic of China* (《中華人民共和國勞動合同法》), with a signing rate of 100% of labour contracts. In accordance with the law, we pay "five social insurance and one housing fund" for employees, i.e. pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing accumulation fund, to ensure employees enjoy social insurance benefits.

In accordance with national and local laws and regulations such as the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》), the Group effectively protects the legitimate rights and interests of employees, respects their right to rest and vacation, and regulates their working hours and the various rest and vacation rights they enjoy. All employees of the Group are entitled to encouraging treatment such as the annual leave, sick leave, personal leave, marriage leave, maternity leave and nursing leave, condolence leave, work injury leave, study or examination leave, and judicial leave (jury service).

The Group has also set up the *Share Options Scheme* (《購股權計劃》) and the *Share Award Plan* (《股份獎勵計劃》), which grant employees share options and shares, link performance with employees' performance, promote our long-term goals, and offer rewards or remunerations to employees who have continuing contributions to the Group, so as to attract and retain outstanding talents.

In addition, the Group has been committed to providing thoughtful and comprehensive employee benefits and actively organizing rich and colourful activities. For this reason, we have formulated the *Plan for Implementation of Corporate Cultural Activities in Operation Headquarter in 2019* (《2019年營運總部企業文化活動開展方案》), hoping to enhance the cohesion and execution of employees through cultural activities and promote employees to better carry out their work. The annual activities include, but are not limited to, employee birthday parties, daily physical exercises, office environment renovation, annual employee outdoor visits, March 8 activities, outreach activities, mid-autumn festival activities, preparations for the annual meeting of 2020 spring festival, and other small activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B1. Employment (continued)

General Disclosure (continued)

Recruitment, promotion and dismissal

The Group actively implements the strategy of strengthening enterprises with talents and continuously establishes and improves the talent recruitment and selection policy. In order to meet the requirements of operation management and business development of the Company, rationally allocate human resources and standardize recruitment, the Group has formulated the *Operation Guidelines on Recruitment Management* (《招聘管理作業指引》). Relevant procedures are listed in the Guidelines, including but not limited to recruitment channels such as recruitment application and approval, internal recruitment and external recruitment, selection of job-seeking materials, interview, employment confirmation, background investigation, employment approval procedures, procedures of new employee entries, and establishment of employee files.

The Group has a clear basis and procedure for the promotion, transfer and demotion management of employees, standardizes the resignation procedure and protects the interests of both employees and the Company. Relevant procedures and detailed rules are listed in documents such as the *Staff Manual* (《員工手冊》), the *Operation Guidelines on Promotion Management* (《晉升管理作業指引》), the *Management Procedures for Employee Comprehensive Evaluation* (《員工綜合評估管理程序》) and the *Operation Guidelines on Appointments and confirmations of Employment* (《入職與轉正管理作業指引》). In principle, the Company carries out promotion evaluation and approval twice a year. We have implemented a fair and open assessment policy. We will fully consider the past performance of employees and their comprehensive qualities, including moral character, work capability and obedience awareness, to provide opportunities for employees to promote and develop so as to explore their potential.

Meanwhile, in order to provide a fair and impartial promotion channel for employees, the Group will select outstanding young management cadres through internal competition to take up major positions in new development projects, so as to provide internal promotion opportunities for outstanding employees and retain talents. In order to solve the problems of talent gap of the Group's core positions, brain drain in key positions, and difficulties in self-cultivation of talents, we have drawn up and implemented the *Proposal for Formation of Corporate Echelon Talent Pool* (《企業梯隊人才庫建設方案》) to optimize our human resources allocation, improve the talent reserve mechanism, and implement the successor plan for core positions and the talent reserve plan for key positions.

In addition, in order to further strengthen and perfect our resignation management of employees, we not only set out the relevant procedures for resignation in the *Staff Manual* (《員工手冊》), but also formulated the *Operation Guidelines on Termination Management* (《離職管理作業指引》) to maintain a normal order of staff turnover and to combine the actual operation.

Equal opportunities

The Group strictly abides by various laws and regulations of national and local governments, adopts a fair, just and open recruitment procedure, and formulates relevant policy documents to eliminate discrimination in the recruitment process. It does not discriminate against any employee due to factors such as race, sex, skin colour, age, family background, national tradition, religion, physical quality and nationality, and allows employees to enjoy fair treatment at all stages of recruitment, salary, training and promotion, so as to try its best to recruit professional talents from different backgrounds to join the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B2. Health and safety

General Disclosure

The Group attaches great importance to the health and safety of its employees and is committed to creating a good working environment and safe production conditions. We strictly implement the relevant laws and regulations such as the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》), the *Production Safety Law of the People's Republic of China* (《中華人民共和國安全生產法》), the *Prevention and Control of Occupational Diseases Law of the People's Republic of China* (《中華人民共和國職業病防治法》), the *Fire Protection Law of the People's Republic of China* (《中華人民共和國消防法》), as well as the *Occupational Safety and Health Regulations* (《職業安全及健康條例》). During the reporting period, the Group did not record any serious accidents that resulted in death or serious bodily injury, did not pay reimbursement or compensation to the employees of the Group due to such accidents, and did not find any material matters that violated laws and regulations related to employees' health and safety.

Occupational safety and health

The Group has established occupational health guidelines for enterprises in accordance with the OHSMS standard system of the *Occupational Health and Safety Management System* (《職業健康安全管理體系》). The Group is committed to preventing, controlling and eliminating occupational hazard factors in the working environment, protecting the health of workers, enhancing employees' awareness of safe production, ensuring building safety and meeting the needs of enterprises and employees.

The Group stipulates that the principal personnel in charge of the department shall be fully responsible for the occupational health management of the Company. The Project Management Centre of the Group regularly organizes the Company's safety management team to inspect the security situation of projects under construction, and the inspection results are reported to leaders of the Group. The Group has formulated the *Administrative measures for the reporting, investigating and handling of safety production incidents* (《安全生產事故報告與調查處理管理辦法》), to stipulate the procedures of reporting, investigating and handling of safety incidents, to implement an accountability system on safety production incidents and to prevent and reduce the occurrence of safety production incidents.

The Group has compiled the *Operation Guidelines on the Management of Construction Safety and Legitimacy* (《安全文明施工管理作業指引》), and through preventive and monitoring measures, reducing the rate of accident occurrence at project construction process, improving the image and environment of construction sites, monitoring the construction safety process and knowledge in managing safety accidents. Project companies assess the management measures prepared by the contractors in regard to construction safety and legitimacy, and conduct independent patrolling, sample checking and monitoring on every aspects of the construction sites, report to the relevant person-in-charge and the contractors when problems are identified and monitor the relevant rectifications. The Group's Project Management Centre monitors the project companies' execution of safety management policies. We require the contractors to establish trainings on safety education and techniques, which are held regularly and seasonally.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B2. Health and safety (continued)

General Disclosure (continued)

Occupational safety training and employee health management

In order to take preventive measures, the safety director of the project company is responsible for carrying out safety training and supervision for relevant personnel at occupational-disease-prone positions from time to time, including checking the use of labour protection equipment by employees, and inspecting and handling workplaces and health risks, so as to reduce the spread of common diseases and ensure construction safety. We will also arrange relevant employees who are relatively prone to occupational diseases to undergo occupational disease examination and establish health monitoring files. In addition, we have arranged for all employees to have a comprehensive physical examination every year to understand their physical condition and potential crisis so as to ensure their health. During the reporting period, the expenditure on physical examination of employees was approximately RMB161,226 (2017: approximately RMB118,174), an increase of approximately 36.4% from 2017.

B3. Development and training

General Disclosure

The Group attaches great importance to the establishment of an internal management training and development system of the enterprise. It provides diversified training modes such as induction training for new employees, management training, employee policy training, professional skills training, echelon personnel training, and management personnel training to meet the different requirements of employees of all levels and types, enhance the skills of employees, and help our sustainable development and personal growth and development of employees.

Training management

To enhance the Group's operation management as well as to meet the demand of business development, the Group has established the *Operation Guidelines on Staff Training Management* (《培訓管理作業指引》) and *Operation Guidelines on Staff Internal Transfer* (《員工異動管理作業指引》) to standardize the Group's staff training management At every year end, the Group devises an annual training program for the coming year, which encompasses both internal and external trainings and is tailor made for the operating environment of every department. All training programs aim to elevate the employee's efficiency in order to cope with changes in their working environment.

We regularly arrange training and study for on-the-job managers on internal policies and procedures and professional skills improvement; meanwhile, on-the-job managers are arranged to attend professional training courses organized by external training institutions from time to time. In addition, an all-staff policy assessment is organized every six months. The assessment content includes policy examination results and policy training attendance, and the assessment results are incorporated into the annual comprehensive assessment of employees.

In addition, in order to standardize the selection, assessment, training and motivation of internal trainers, and to establish and train an internal trainer team to promote business development and cultural construction of the Company, we have formulated the *Management Measures for Internal Trainers* (《內部培訓師管理辦法》). In the above management measures, detailed procedures of internal trainers and internal trainer assessment teams, such as the responsibilities, selection procedures, assessment management and training incentives, are listed in detail.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B3. Development and training (continued)

Training course

The training categories of the Group are classified into induction training of new employees, management training, employee policy training, professional skills training, echelon personnel training, management personnel training and other special training. The content of the training plan will include but not limited to items such as the course content, training purpose, training lecturers, trainees, training methods, training schedule, training assessment and evaluation and training cost budget. We will regularly conduct induction training for new employees and introduce the Group's development history, corporate culture, organization structure, company rules and regulations, office operation platform, work flow and company projects to help employees adapt to the working environment as soon as possible, better perform their duties and improve their work efficiency. The training of management trainees is continuously carried out every year, and the training of management trainees has been strengthened through the combination of closed centralized training and rotation training.

We have the *Echelon Talent Learning Report* (《梯隊人才學習報告》), which allows employees to evaluate management or professional skills improvement, personal comprehensive quality improvement, organizational management and business improvement suggestions on a quarterly, semi-annual and annual basis. The evaluation scope includes, but is not limited to, management planning, plan control, talent training and supply, team leadership, communication and coordination, execution and self-improvement. In addition, the talent advisor and the Human Resources Department will also complete the part of talent evaluation and give suggestions and opinions to the Human Resources Department.

During the reporting period, the Group organized a total of 709 sessions of staff training with 3,965 staff attended. Internal and external training involved 3,502 man hours and 138 man hours respectively. Total training expenses amounted to RMB276,910.

The Group also attaches great importance to safety production training to protect employees' personal safety. Relevant policies are described in detail in the "Occupational Safety and Health" section of Aspect B2.

B4. Labour standards

General Disclosure

Preventing engagement of child labour or force labour

The Group has complied with the *Convention concerning the Abolition of Forced Labour* (《廢止强迫勞動公約》), the *Employment Ordinance*(《僱傭條例》), the *Labour Law of the People's Republic of China* (《中華人民共和國勞動法》) on the employment of young people under the age of 16 and their legal rights and interests, and the *Provisions on the Prohibition of Using Child Labour* (《禁止使用童工規定》), which have been implemented. During the reporting period, the Group did not find any major violations of laws and regulations related to the prevention of child labour or forced labour.

The Group strictly prohibits the employment of any child labour and forced labour in its mainland business. It will review our employment practices from time to time and inspect the employment status of contractors to prevent potential violations. In addition, the recruitment prospectus makes clearly that only employees over the age of 16 are to be recruited, and requires employees to truthfully complete the entry report form and personal data (including personal resume, education-related certificates, career background investigation files, etc.). The Human Resources Department and the Project Office will review the recruitment before employment to ensure that the entire recruitment is legal. The Group has established a complete recruitment procedure requiring examination of candidates' backgrounds and a formal reporting procedure for handling any exceptions. In addition, regular reviews and inspections are conducted to prevent any child labour or forced labour in the operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B4. Labour standards (continued)

General Disclosure (continued)

Preventing engagement of child labour or force labour (continued)

In addition, the Group's employees work overtime on a voluntary basis. Employees must apply for overtime in advance and submit it to the personnel supervisor for registration and filing after being approved by the person in charge of the subordinate unit or department. They will be given compensatory leave or overtime allowance during the corresponding holidays. No department member of the Group may detain the employee's identity card, deposit or salary for any reason.

Meanwhile, the Group will not appoint these sellers and contractors who are aware of employing child labour or forced labour in their operations to provide administrative supplies and services.

B5. Supply chain management

General Disclosure

Most of the Group's project engineering and professional technology provision are mostly built by contractors in the form of bidding, so the selection of suppliers and technology providers is very strict. As the Group attaches great importance to the management of potential environmental and social risks in the supply chain, we have established a strict and standardized bidding system and supplier selection procedure, and have put forward requirements for suppliers in terms of environmental and social risk control.

Environmental and social risk management of the supply chain

In order to maintain a long-term and stable cooperative relationship with suppliers, the Group is extremely strict in selecting suppliers and has a well-managed procurement system and a strict supplier selection procedure. We have formulated the *Supplier Management Program* (《供貨商管理程序》) to standardize supplier selection and cooperative management, improve the integration and effect of the Group's external resources, and promote the achievement of the objectives of various development projects and the Company's strategy.

The Group supports local procurement. Most of the construction materials are purchased locally in the project development. This will not only reduce the supply chain risk of suppliers failing to meet the requirements of the Group, but also support environmental protection and reduce carbon emissions from transporting construction materials.

We have formulated the *Operation Guideline on Management of Supplier Resources Pool* (《供應商資源庫管理作業指引》), the *Operation Guideline on Supplier Certification* (《供應商認證作業指引》) and the *Operation Guidelines on Supplier Assessment* (《供應商評估作業指引》) to build the information management platform for suppliers. After qualification or on-site review, suppliers will be classified and put into storage. Through the establishment and maintenance of the supplier database, the resource information of suppliers is systematically collected and processed to ensure that the Group can efficiently find the most suitable suppliers.

B. SOCIAL (continued)

B5. Supply chain management (continued)

General Disclosure (continued)

Environmental and social risk management of the supply chain (continued)

In order to standardize the Group's strategic procurement management (engineering) and improve the procurement efficiency and transparency, the Group has established a strategic procurement supplier receipt/issue review team, which is responsible for approving the receipt/issue of strategic procurement suppliers. We have a *Supplier Inspection Report* (《供方考察報告》) to record the basic situation of suppliers and the opinions of the review team. The report mainly inspects aspects of the supplier such as the size and ability of the company, management standardization, personnel mobility, allocation mode of contract funds and construction site management, and explains the conclusion of the inspection.

At the end of each year, the department of contract bidding management will jointly evaluate and screen suppliers with other management centres and project companies in order to reduce the environmental and social risks brought to the Group's operations by suppliers' non-achievement of the target performance, such as environmental pollution at construction sites or damage to our reputation caused by the employment of illegal workers. After the review report is approved by the leaders of the Group, the supplier level in the cooperative supplier database is updated in line with the review results, and unqualified suppliers are eliminated to ensure that the qualified suppliers remaining on the roster can provide quality assurance.

In addition to environmental risks, we will also take measures to inspect whether its major suppliers and contractors meet relevant laws and regulations and other standards to be met in terms of health, safety, forced labour and child labour, as well as the awareness of suppliers in the above aspects.

Fair and open procurement

The Group attaches great importance to anti-corruption in processes such as procurement. We have formulated the *Integrity Agreement* (《廉潔協議書》) to prevent commercial bribery in the field of engineering construction, to define the responsibilities and obligations of the contracting parties, and to prevent all kinds of violations of law and discipline parties who seek illegitimate interests. The procurement procure of the Group is conducted in an open, fair and impartial manner in strict accordance with relevant regulations such as the *Law of the People's Republic of China on Tenders and Bids* (《中華人民共和國招標投標法》). It will not discriminate against any supplier, but employees and other individuals who have interests in relevant suppliers will not be allowed to participate in relevant procurement activities. The Group also pays attention to the integrity of suppliers and partners. We will only select suppliers and partners who have a good business record in the past and have no serious violations of laws or business ethics. We have zero tolerance for bribery and corruption and prohibit suppliers and partners from obtaining procurement contracts or cooperative relationships through any form of profit transmission.

Commercial ethics

The Group also pays attention to the integrity of suppliers and partners. We will only select suppliers and partners who have a good business record in the past and have no serious violations of laws or business ethics. The Group adopts a zero-tolerance strategy against corruption and bribery and prohibits suppliers and partners from obtaining procurement contracts or cooperative relationships through any form of profit transmission.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility

General Disclosure

The Group attaches great importance to product quality and corporate reputation. We actively ensure the quality of products and services through internal controls and actively develop high-quality real estate projects. We have also been maintaining communication with customers to ensure that we understand and meet customers' needs and expectations, and we hope to know customers' satisfaction so as to continuously improve the real estate projects and services of the Company.

During the reporting period, the Group did not find any major violations regarding the health and safety, advertising, labelling and privacy of the products and services provided, and strictly abided by relevant laws and regulations, including but not limited to the *Trade Descriptions Ordinance* (《商品說明條例》) of Hong Kong, the *Law of the People's Republic of China on Product Quality* (《中華人民共和國產品質量法》), the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests* (《中華人民共和國消費者權益保護法》), the *Advertising Law of the People's Republic of China* (《中華人民共和國廣告法》), the *Copyright Law of the People's Republic of China* (《中華人民共和國著作權法》), the *Patent Law of the People's Republic of China* (《中華人民共和國專利法》), as well as the *Trademark Law of the People's Republic of China* (《中華人民共和國商標法》).

The Group has complied with the development needs of cities and customers. From quality to scale, the Group has won praise from the industry and society. We carry out the Company's management policy of honesty and service as well as market and reputation in priority, and have won the recognition of customers in all regions by creating brand with high-quality products. The Group has won many awards for outstanding performance in 2018, with more than 50 awards, including but not limited to:

Names of Major Awards and Achievements	Issuing Authority
Skyfame Realty (Holdings) Limited was ranked 176th in the list of the 2018 China Real Estate Development Enterprises Top 500 (《2018中國房地產開發企業500强》)	China Real Estate Association and China Real Estate Evaluation Centre of Shanghai Yiju Real Estate Research Institute
Skyfame Realty (Holdings) Limited received the award of 2018 Quality China Real Estate Developer (《優質中國房地產企業大獎2018》)	Organizing Committee of the China Real Estate Enterprise Awards
Skyfame Realty (Holdings) Limited was awarded the 2018 China Real Estate Comprehensive Development Professional Leading Brand Value TOP10 – City Youth Innovation Service (《2018中國房地產綜合開發專業領先品牌價值TOP10－城市青年創新運營服務》)	China Real Estate TOP10 Research Group
Skyfame Realty (Holdings) Limited was awarded the 2018 Chinese Real Estate Industry Outstanding Enterprise (《2018年度中國房地產行業優秀企業》)	China Real Estate Industry Management Association

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility (continued)

General Disclosure (continued)

Names of Major Awards and Achievements	Issuing Authority
Skyfame Realty (Holdings) Limited was awarded the 2018 Xuzhou's Most Influential Brand Real Estate Enterprises Award (《2018年度徐州最具影响力品牌房企》)	Xuzhou Media Group
Guangzhou Skyfame Byland was awarded the Happiness Home Champion – Most Influential Award in Urban City (《幸福家金獎之最具城市影響力獎》)	Guangdong Radio and Television News Channel, Guangdong Radio and Television Real Estate Channel, and Guangdong Academy of Social Sciences Environment, Economic and Policy Research Centre
Guangzhou Skyfame Byland was awarded the 2018 China Real Estate Champion List – Top City Central Benchmark Luxurious Residences (《2018年度中國地產冠軍榜－極致城央標竿豪宅》)	NetEase News Real Estate, the Guangdong Real Estate Association, and the Evaluation Committee of China Real Estate Champion List
Nanning Skyfame City was awarded the 2018 Guangxi Real Estate Industry Ceremony – Single Project Sales Champion in Guangxi (《2018廣西房地產行業盛典－廣西商品房單盤銷售金額冠軍》)	Guangxi Real Estate Association, CRIC Research Center, Star broadcast Media Group Perfect Real Estate, and Guangxi Radio and Television News Channel
Nanning Skyfame City, including Nanning Skyfame Garden and Nanning Skyfame ASEAN Maker Town, was awarded the 2018 Guangxi Real Estate Industry Ceremony – Nanning Commodity Property Sales Top 3 (《2018廣西房地產行業盛典－南寧辦公銷售金額前3强》)	Guangxi Real Estate Association, CRIC Research Centre, Star broadcast Media Group Perfect Real Estate, and Guangxi Radio and Television News Channel
Nanning Skyfame City was awarded the 2018 Nanning Most Valuable Real Estate Investment Project Award (《2018南寧最具投資價值地產項目》)	Guangxi Radio and Television Education Broadcasting, Leda Media, and Ai Rui Consulting
Nanning Yuwo Corporate Company Limited was appointed as the executive number of the first Board of Members	Nanning Science and Technology Service Industry Association
Nanning Tianyu Jurong Real Estate Co., Ltd. ("Tianyu Jurong") was awarded the 2018 Guangxi Real Estate Social Contributing Enterprise Award (《2018廣西地產社會貢獻企業大獎》)	Guangxi Daily Media Group, Southern Morning Post and Home Weekly

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility (continued)

General Disclosure (continued)

Names of Major Awards and Achievements	Issuing Authority
Skyfame Nanning projects including Nanning Skyfame Garden and Nanning Skyfame ASEAN Maker Town, was awarded the 2018 Guangxi Real Estate Industry Ceremony – Guangxi Real Estate Sales Top 20 (《2018廣西房地產行業盛典－廣西房企銷售金額前20强》).	Guangxi Real Estate Association, CRIC Research Center, Star broadcast Media Group Perfect Real Estate, and Guangxi Radio and Television News Channel
Community of Mr. Fish of Xuzhou Skyfame Time City was awarded the 2018 Top 10 Real Estate Project Award (《2018年度十佳樓盤》)	Tencent Xuzhou Station
Chongqing Skyfame Smart City was awarded the First Smart Expo Chongqing Smart Property Developer – Top 10 Smart Community (《首屆智博會重慶智能房企成果展示－十佳智能社區》)	Chongqing Daily
Chongqing Skyfame Smart City was awarded the Advanced City Quality Project under Construction in Chongqing (《重慶市在建工地品質城市先進項目》)	Urban and Rural Construction Committee of NanAn District
Chongqing Skyfame Smart City was awarded the 2018 China Real Estate List – the Annual Model Project (《2018中國房產風雲榜－年度榜樣樓盤》)	Anjuke
Guangzhou Tianyu Property Management Company Limited was appointed as the executive member of the sixth Board Members	Guangzhou Property Management Association

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility (continued)

General Disclosure (continued)

Quality control

The Group attaches great importance to quality factors and corporate reputation and thoroughly understands the importance of quality control in production. In order to ensure that the Company's commercial housing complies with the relevant national standards, we have formulated the *Operation Guideline on Engineering Quality Control* (《工程質量控制作業指引》) to supervise the project to comply with the relevant national standards and technical standards and to meet the requirements of engineering and service contracts. The project company reviews the construction plan submitted by the contractor, quality control and assurance measures, and the enterprise qualifications of subcontractors and suppliers, and conducts on-site inspection and spot checks on the construction quality. The Project Management Department of the Group provides technical support to the project company and reviews quality assurance measures.

In addition, the Group has also devised the *Operation Guidelines on Indoor Environmental Pollutions Control* (《室內環境污染控制作業指引》) to ensure that the construction materials used comply with the government's regulations and meet environmental indicators. Effective indoor environmental pollution controls are carried out at key stages during the course of construction in order to prevent the delivery of unqualified products to customers. Department responsible for procurement and tendering are required to comply with the Group's guidelines and the Government's relevant regulations when setting up procurement and out-source contracts. Project companies are responsible to monitor the radon concentration in soil and examine the delivered materials according to environmental protection indicators. The supervision companies are responsible to perform tests on indoor environment contamination rates and emission rates of materials that may cause pollution before being put in use, and monitor the concentration of pollutants before acceptance of completed works.

According to the Group's relevant policies or the contractors' *Regulation on the Maintenance of End-Product after Construction* (《建築成品保護規定》) which was monitored by the Group, the engineering department of project company procures the main contractor to set up a working team to maintain the quality of the end-products by coordinating all its independent sub-contractors in such respects to ensure that the end products are completed according to the requirements in the relevant contracts, so as to discharge all parties' responsibilities or otherwise impose penalties.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility (continued)

Processing of Non-conforming Products

The Group has developed the *Procedure Document for Control of Non-conforming Products* (《不合格控制程序文件》) to identify and control the non-conformity arising during the work and service so as to meet the specified requirements and prevent unintended use or delivery. The definitions of non-conformity listed in the document are classified into general non-conformity and severe non-conformity according to their degree of influence and nature. The project company shall check and accept equipment materials and construction according to the specified requirements, immediately correct, identify and record the non-conformity of any items found to fail to meet the requirements, and directly or require the supervision company to issue a *Notification of Remediation* (《整改通知單》) as well as request the supplier to submit a quality report. For the non-conforming products, we will have the following treatment:

- The leader of the department in charge is responsible for identifying, reviewing, approving, correcting and tracking and verifying the general non-conformity;

- Regarding severe non-conformity, the department in charge shall formulate corrective measures, the Planning and Operation Department is responsible for reviewing the measures, and the management representatives and the Company leaders should take charge of approval. The Planning and Operation Department organizes the correction tracking, verification and recording of the severe non-conformity;

- For non-conforming service, resource allocation, training, punishment and compensation, and other treatment measures can be taken;

- The following four circumstances should be treated and adjusted and their verification records should be kept, the process and product are unqualified, and the materials for the supply equipment are unqualified; there is control of the non-conforming products and procedures appearing during the construction process; quality accidents; unqualified work during inspection and acceptance;

- All severe non-conformity should be handled with corrective and preventive measures in accordance with the *Control Procedures for Corrective and Preventive Measures* (《糾正和預防措施控制程序》); and

- The processing of all non-conformity will be verified and the complete records will be kept. Relevant records will be saved in the relevant departments. All departments and project companies set up non-conformity and corrective measures to tracking accounts and report to the Planning and Operation Department monthly. The Planning and Operation Department collects data about unqualified and corrective situations and analyses the unqualified information and data each month.

B. SOCIAL (continued)

B6. Product responsibility (continued)

Processing of Non-conforming Products (continued)

Besides, we have made *Procedures of Corrective and Preventive Actions Control* (《糾正與預防措施控制程序》) to take corrective and preventive actions against potential or existing unqualified situations, eliminate the causes of potential or existing unqualified situations, and prevent them from occurring or recurring. In the procedures, we will list corresponding handling of certain situations, including the approaches of finding unqualified situations or potential unqualified situations, project approvals of preventive measures, analysis of causes of potential unqualified situations, development and approval of preventive proposals, implementation of preventive measures, review of results of preventive measures, and analysis and documentation of implementing results of preventive measures.

Customer service and privacy

The Group believes that customer satisfaction is one of the key factors for sustainable production and business development. Therefore, we have developed a *Monitoring Procedure for Customer Satisfaction Measurement* (《顧客滿意度測量監控程序》), and established a procedure to investigate and understand customers' satisfaction with the Group's work quality, engineering entity quality and services during the processes of real estate development, sales and after-sales services. We will propose corrective and preventive measures based on the measurement results and continuously make progress to maintain or improve customer satisfaction. Our Marketing Management Department and the District Office's Marketing Management Department develop annual plans of customer satisfaction survey in the department's annual work plan. The starting time of customer satisfaction survey of each building is at least once a year after moving in. Three years after moving in, the survey will be taken up by the property management company for implementation. The survey will be conducted through telephone interviews, home visits, online surveys, questionnaire distributions, etc. The survey includes but is not limited to planning and design, project quality, property management, sales management, and customer service, etc. The Marketing Management Department and the District Office's Marketing Management Department shall organize relevant departments and company executives to review the customer satisfaction surveys and customer opinions and suggestions, come up with advice and determine the projects that need to be corrected and prevented. Besides, the Marketing Management Department and the District Office's Marketing Management Department shall issue Reports on *Corrective and Preventive Measures* (《糾正和預防措施報告》) to the responsible departments with projects that the customers are not satisfied with, and ask them to improve or make progress.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility (continued)

Processing of Non-conforming Products (continued)

Customer service and privacy (continued)

Besides, to elevate the standard of the Company's products, services, and management, to enhance product quality and service, to ensure customers' complaints are resolved in a timely, accurate and reasonable manner and to achieve the Company's target of refining the Company's products and service continuously, we shall set up special customer service hotlines and arrange special personnel to receive the calls in each project's Customer Service Department. The Group has also established *Code for Customers' Complaints Handling* (《顧客投訴處理程序》) to standardize the procedures of handling customer complaints to make them dealt with in time and effectively. We focus on three "roles" while handling customer complaints. Marketing is the first contact of customer services, the solutions to solve customers' problems, and the consultant to customers. Two latitudes include customer latitude, meaning that customer needs and complaints are both legitimate, and customer services latitude, which means all customer needs and complaints are where we should improve. Two tools refer to first-be-inquired responsibility system and highest working level. Careful complaints definition, complaints classification, complaint grading, and handling procedures are clearly documented, such as evidence obtaining and collections of sales information, acceptance of complaints, complaints handling, time limit of handling general complaints, complaints reply, closure of complaints, early warning of complaints upgrading, and statistical feedback of complaints, etc.

Moreover, the Group carefully manages the customers' files to avoid disclosure of customer privacy. As part of the Group's resources, customer information and customer data shall not be sold, shared, or revealed for any purpose. Each employee must protect the customer information and data in accordance with the company's regulations to avoid disclosure of customer information.

Intellectual property

We have relevant management procedures to effectively manage the Group's intellectual property. When we find out that someone has infringed the Group's intellectual property, we will protect our rights with the guidance of relevant lawyers and experts. We will file a lawsuit against those having infringed our intellectual property rights based on Article 213 of *Criminal Law of the People's Republic of China* (《中華人民共和國刑法》) to safeguard the legitimate rights and interests of intellectual property held by the Group. Moreover, we also avoid infringement of intellectual property rights of others. When using words, graphics or their combinations similar to or identical to registered trademarks, we will conduct patent novelty searching to avoid infringement of intellectual property rights.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B6. Product responsibility (continued)

Processing of Non-conforming Products (continued)

Advertisement and labels

The Group has formulated a *Sales Manual on Operation Guide*, which lists the procedures of the *Sales Manual* (《銷售手冊》) and standardizes the sales methods, including but not limited to advertising and labelling issues. The operating procedures are as follows.

1. The Marketing Management Department and the District Office's Marketing Management Department make an outline and consult relevant professional departments' opinions. The opinions of relevant departments shall be replied after being signed and confirmed by the person in charge.

2. The Marketing Management Department and the District Office's Marketing Management Department prepare the sales manual. Direct projects shall be approved by the person in charge of the Marketing Management Department. Projects of the city company shall be submitted to the general manager of design and development and the general manager of marketing for review, and approved by the president of the city company.

3. After being approved, the Marketing Management Department and the District Office's Marketing Management Department will train the sales staff on-site.

4. If there are any changes or supplement to the contents of the sales manual, it shall be updated by the Marketing Management Department and the District Office's Marketing Management Department and used after review and approval according to Step 2.

B7. Anti-corruption

General Disclosure

Anti-corruption

The Group believes that corruption-free corporate culture is the key to our continued success, so the Group attaches great importance to anti-corruption policies and systems. The Group has been protecting all its business from any illicit behaviour in its operating environment. In addition, honesty, integrity and fairness are the core values of the Group which all employees are required to fulfil and safeguard. In order to manifest such values, the *Staff Manual* (《員工手冊》) of the Group sets out the measures against any offender of anti-corruption regulations. The provision or recipient of bribery or interests (including commissions, handling charges, rebates, rewards, vouchers, gifts, etc.) in any forms from business- related units are deemed as serious violations of the Group's regulations. The Company shall rescind the employment contract of the offender and may seek relevant economic and legal responsibilities from the offender. The Group also prescribes its contract management procedures, which strictly prohibit business institutions and its staffs from obtaining direct or indirect monetary benefits from contracted parties through illicit means such as bribery and rebate when performing contracts.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (continued)

B7. Anti-corruption (continued)

General Disclosure (continued)

Anti-corruption (continued)

During the reporting period, the Group strictly abides by the relevant laws and regulations to prevent bribery, extortion, fraud and money laundering, including but not limited to *Prevention of Bribery Ordinance* (《防止賄賂條例》), *Company Law of the People's Republic of China* (《中華人民共和國公司法》), *Law of the People's Republic of China on Tenders and Bids* (《中華人民共和國招標投標法》), *Criminal Law of the People's Republic of China* (《中華人民共和國刑法》), *Law of the People's Republic of China against Unfair Competition* (《中華人民共和國反不正當競爭法》), *Interim Provisions on Prohibiting Commercial Bribery* (《關於禁止商業賄賂行為的暫行規定》), etc. We haven't found any major violations.

The Group is highly concerned about potential bribery and corruption during the purchasing process. Thus, we have formulated rules and regulations to manage the bribery and corruption, which have been described in the section of "Supply Chain Management" at Aspect B5.

Reporting System

The Group has established a clear reporting system to build and maintain our corruption-free and transparent culture. If an employee is found to have violated the code of integrity, the customer or business institution is welcome to report the case through the customer complaint and suggestion email (tousu@tianyudc.com, tydc110@163.com), phone ((86-20) 2208 2803, 2208 2827)) or the Company's website (www.tianyudc.com).

B8. Community investment

General Disclosure

Corporate Social Responsibility

The Group believes that the success of an enterprise depends not only on its business development, but also on its responsibility to repay the society. Therefore, as the Group is devoted to developing our business and achieving better returns for our shareholders, we also fulfil our corporate social responsibilities through our continued contribution to society.

The Group hopes to cultivate our employees' sense of social responsibility. Thus, we always encourage our staff to take part in public welfare activities during work time and private time to contribute more to society. We believe that by encouraging the employees to participate in social charity and fundraising activities to express their concerns for the society, we not only improve the ideological quality of our employees, but also bring warmth to people in need. We believe that we can raise our employees' civic awareness and help them establish the correct value by joining in activities focusing on repaying society.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INDEX OF *REPORT GUIDELINES OF ENVIRONMENT, SOCIETY AND GOVERNANCE* (《環境、社會及管治報告指引》) *OF THE STOCK EXCHANGE* OF HONG KONG LIMITED

Aspects, General Disclosure and Key Performance Indicators	Description	Chapter/Statement
Aspect A1: Emissions		
General disclosure	Air and greenhouse gas emission, discharges into water and land, generation of hazardous or non-hazardous wastes: (a) Policies; and (b) compliance with relevant laws and regulations that have a significant on the issuer.	Emissions: Exhaust gas emissions, greenhouse gas emissions, sewage discharge, and waste treatment.
KPI A1.1 ("Comply or Explain")	Type of emission and related emissions data.	Emissions: Exhaust gas emissions, greenhouse gas emissions, sewage discharge, and waste treatment.
KPI A1.2 ("Comply or Explain")	Total greenhouse gas emissions (calculated in tonnes) and intensity	Emissions – Greenhouse gas emissions
KPI A1.3 ("Comply or Explain")	Total amount (calculated in tonnes) and intensity of hazardous waste	Emissions: Waste treatment (Inapplicable – explained)
KPI A1.4 ("Comply or Explain")	Total amount (calculated in tonnes) and intensity of non-hazardous waste	Emissions: Waste treatment
KPI A1.5 ("Comply or Explain")	Description of measures and achievements of emissions reduction.	Emissions: Exhaust gas emissions, greenhouse gas emissions, and sewage discharge.
KPI A1.6 ("Comply or Explain")	Description of methods of handling hazardous and non-hazardous waste, measures and achievements of emissions reduction.	Emissions: Waste treatment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosure and Key Performance Indicators	Description	Chapter/Statement
Aspect A2: Use of Resources		
General disclosure	Policy of effective utilization of resources (including energy, water and other raw materials).	Use of resources – Energy consumption, water management
KPI A2.1 ("Comply or Explain")	Total amount and intensity of direct and/or indirect energy consumption by type.	Use of resources – Energy consumption
KPI A2.2 ("Comply or Explain")	Total water consumption and intensity.	Use of resources – Water management
KPI A2.3 ("Comply or Explain")	Description of energy efficiency scheme and its achievements.	Use of resources – Energy consumption
KPI A2.4 ("Comply or Explain")	Description of problems on obtaining applicable water source, improving water efficiency scheme and its achievements.	Use of resources – Water management
KPI A2.5 ("Comply or Explain")	Total amount (calculated in tonnes) and unit amount of packaging materials used in the finished product	Use of resources – Use of packaging materials (Inapplicable – explained)
Aspect A3: Environment and Natural Resources		
General disclosure	Policy reducing the major impact of initiators on the environment and natural resources	Environment and natural resources
KPI A3.1 ("Comply or Explain")	Description of business activities` major impacts on environment and natural resources and actions taken to manage related impacts.	The environment and natural resources – Noise management, indoor environmental pollution control, and green construction
Aspect B1: Employment		
General disclosure	Salary and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversification, anti-discrimination and other treatment and welfares: (a) Policies; and (b) Compliance with relevant laws and regulations that have significant impact on the issuer.	Employment

Aspects, General Disclosure and Key Performance Indicators	Description	Chapter/Statement
Aspect B2: Health and Safety		
General disclosure	Providing safe working environment and protect employees from occupational hazard: (a) Policies; and (b) Compliance with relevant laws and regulations that have significant impact on the issuer.	Health and safety
Aspect B3: Development and Training		
General disclosure	Policy related to improving knowledge and skill of employees to let them better fulfil their duties. Describing the trainings	Development and training
Aspect B4: Labour Standards		
General disclosure	Preventing engagement of child labour or force labour: (a) Policies; and (b) Compliance with relevant laws and regulations that have significant impact on the issuer.	Labour standards
Aspect B5: Supply Chain Management		
General disclosure	Policy managing the environment of the supply chain and social risks.	Supply chain management
Aspect B6: Product Responsibility		
General disclosure	Health and safety, advertisement, label and private issues of the provided products and services and their remedial measures: (a) Policies; and (b) Compliance with relevant laws and regulations that have significant impact on the issuer.	Product responsibility
Aspect B7: Anti-Corruption		
General disclosure	Preventing bribery, extortion, fraud and money laundering: (a) Policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer.	Anti-corruption
Aspect B8: Community Investment		
General disclosure	Policy related to knowing the need of the community where the operation lies in through the participation of the community as well as ensuring the business activity take the interest of the community into consideration.	Community investment

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasizing transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through its Board of Directors (the "**Board**") and various committees with designated functions.

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period covered by the 2018 financial statements, in compliance with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") except for the following deviation:

Code Provision A.2.1 – Chairman and Chief Executive

The roles of chairman and chief executive officer of the Company are not separated as required but are currently dually performed by Mr. YU Pan since 2004.

Explanation on the deviation is elaborated below under the heading of "Segregation of the Management of the Board and the Management of the Group's Business".

BOARD OF DIRECTORS

As at 31 December 2018, the Board comprised seven Directors as follows:

Executive Directors

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*
Mr. WANG Chenghua *(appointed on 22 October 2018)*

Non-executive Director

Mr. WONG Lok *(re-designated from executive director to non-executive director on 1 January 2019)*

Independent Non-executive Directors

Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

The terms of service of all the Independent Non-executive Directors are one year and are subject to automatic renewal and retirement provision under the amended and restated bye-laws of the Company (the "**Bye-laws**").

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

The attendance record Directors and Committee Members in 2018 is as follows:

	Attendance Record of Directors and Committee Members in 2018					
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee	General Meeting
Number of meetings held during the year 2018	7	3	1	2	1	2
Executive Directors						
Mr. YU Pan *(Chairman and Chief Executive Officer)*	7/7		1/1	2/2		1/2
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*	7/7				1/1	1/2
Mr. WANG Chenghua *(appointed on 22 October 2018)*	2/2					
Non-executive Director						
Mr. WONG Lok *(re-designated on 1 January 2019)*	7/7					0/2
Mr. LI Weijing *(resigned on 22 October 2018)*	3/5					0/2
Ms. LIU Juan *(appointed on 22 October 2018 and resigned on 18 February 2019)*	1/2					
Independent Non-executive Directors						
Mr. CHOY Shu Kwan	7/7	3/3	1/1	2/2	1/1	0/2
Mr. CHENG Wing Keung, Raymond	5/7	3/3	1/1	2/2	1/1	1/2
Ms. CHUNG Lai Fong	6/7	2/3	1/1	2/2	1/1	2/2
Average Attendance Rate	88.24%	88.89%	100%	100%	100%	35.71%

The Board is responsible for formulating and reviewing the long-term business directions and strategies, monitoring the operating and financial performance of the Group, and performing the corporate governance functions. Management is delegated by the Board with the authority to make decisions on daily operations. Both the Directors and management interact frequently to ensure efficient communications between the parties.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

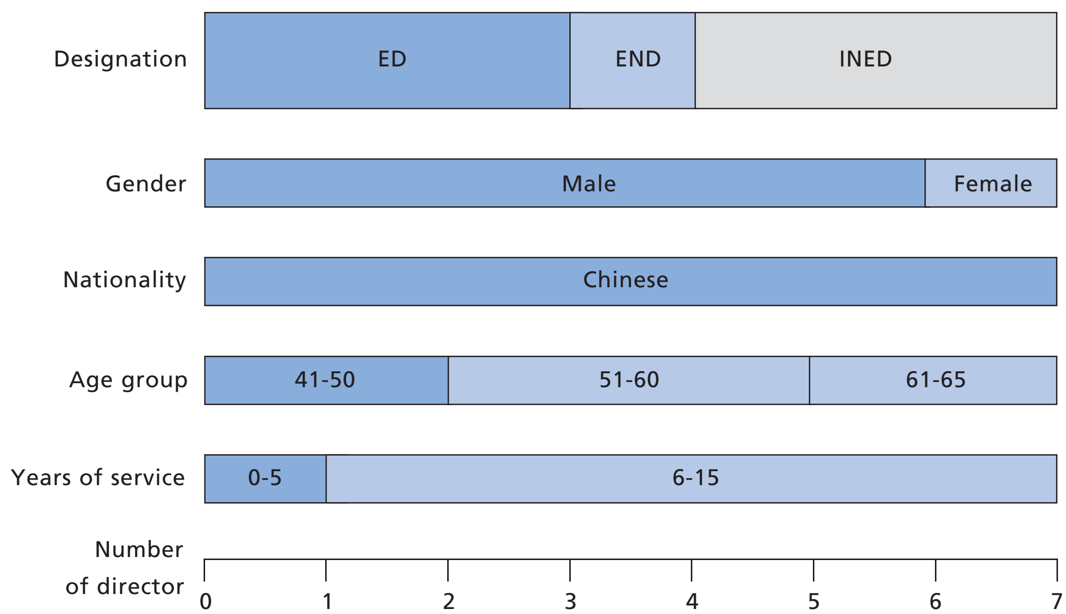
To the best knowledge of the Company, there is no financial, business and family relationship amongst the members of the Board, save as Mr. Wen Xiaobing is (i) an executive director and legal representative of 廣州天譽控股集團有限公司 (Guangzhou Tianyu Holdings Group Company Limited*) (formerly known as 廣州市天譽房地產開發有限公司（Guangzhou Tianyu Real Estate Development Company Limited*）), a PRC incorporated company; and (ii) the chairman and legal representative of 綠景控股股份有限公司（Lvjng Holding Co., Ltd.）, a PRC company listed on the Shenzhen Stock Exchange. The Chairman of the Company, Mr. YU Pan, is the controlling shareholder of the aforesaid two companies.

The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities of the Group.

BOARD DIVERSITY POLICY

The Board recognizes the contribution that diversification of the Board can enhance the quality of its performance but considers that it would be inappropriate to set targets on the diversity on the ground that all appointments of directors will be made on merit and individual basis. Notwithstanding, gender and other diversity issues will be taken into consideration when evaluating the skills, knowledge and experience of any candidate to fill any vacancy at the Board and candidates will be considered against contribution that he/she will bring to the Board, and at the same time with due regard to the diversity on the Board.

As at the date of this report, the Board's composition under major diversified perspectives is summarized as follows:



ED: Executive Director
NED: Non-executive Director
INED: Independent Non-executive Director

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY IN THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements on a going concern basis which give a true and fair view of the state of affairs of the Group in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own Code of Conduct for Securities Transactions by Directors and Relevant Employees of the Company (the "**Code**") on terms no less exact than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules and the Code is updated from time to time in accordance with the Listing Rules requirements. Following specific enquiry by the Company, all Directors of the Company confirmed that they have complied with the required standards as set out in the Code throughout the year under review.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Company has provided resources and supports to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. Besides, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

The training each Director received during the year ended 31 December 2018 is summarized as below:

Name of Director	**Reading materials regarding regulatory update and corporate governance matters**	**Attending seminars/ in-house workshops relevant to the Company's business and Listing Rules compliance and directors' duties**
Executive Directors		
Mr. YU Pan *(Chairman and Chief Executive Officer)*	✓	–
Mr. WEN Xiaobing *(Deputy Chief Executive Officer)*	✓	✓
Mr. WANG Chenghua *(appointed on 22 October 2018)*	✓	–
Non-executive Director		
Mr. WONG Lok (re-designated from executive director to non-executive director on 1 January 2019)	–	–
Mr. LI Weijing *(resigned on 22 October 2018)*	–	–
Ms. LIU Juan *(appointed on 22 October 2018 and resigned on 18 February 2019)*	–	–
Independent Non-executive Directors		
Mr. CHOY Shu Kwan	✓	✓
Mr. CHENG Wing Keung, Raymond	✓	✓
Ms. CHUNG Lai Fong	✓	✓

CORPORATE GOVERNANCE REPORT

SEGREGATION OF THE MANAGEMENT OF THE BOARD AND THE MANAGEMENT OF THE GROUP'S BUSINESS

In pace with the business development and growth of the Group, the Group currently maintains a relatively small but efficient staff force in the management team to take care of the daily operations of the property development business. Both the roles of the Chairman of the Board and Chief Executive Officer who leads the management of the Company are currently played by Mr. YU Pan. The Board considers the current simple but efficient management team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out clearer division of responsibilities at the board level and the management team to ensure a more proper segregation of the management of the board of the Company and the management of the Group's business.

CORPORATE GOVERNANCE FUNCTIONS

The board has established four Board committees, namely, the Remuneration Committee, the Nomination Committee, the Audit Committees and Risk Management Committee. All Board committees have been established with defined written terms of reference, which are posted on the Company's website at www.tianyudc.com and the Stock Exchange's website at www.hkex.com.

All Board committees meet regularly and are provided with sufficient resources to perform their duties. The committee members can seek independent professional advice at the Company's expense upon reasonable request.

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Code which includes the following:

(i) to develop, review and monitor the Group's policies on corporate governance and compliance with legal and regulatory requirements;

(ii) to review and monitor the training and continuous professional development of directors;

(iii) to develop, review and monitor the code of conduct applicable to the employees and Directors; and

(iv) to review the Group's compliance with the corporate governance code and disclosure requirements in the Corporate Governance Report.

The Board has reviewed the Corporate Governance Report to ensure its compliance with the disclosure requirements as set out in the Appendix 14 to the Listing Rules. The Company has issued "Policies on Preservation and Disclosure of Price Sensitive Information" in May 2013 to comply with the requisite inside information disclosure requirements as specified under the Securities and Futures Ordinance and the Listing Rules.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

As at 31 December 2018, the Remuneration Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong (Chairman of the Remuneration Committee).

The roles and functions of the Remuneration Committee are, amongst others, to make recommendations to the Board on the overall remuneration policy structured for all directors and senior management; and to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives achieved. The terms of reference of the Remuneration Committee are available at the Company's website at www.tianyudc.com and on the Stock Exchange's website at www.hkex.com.

The Remuneration Committee held two meetings in March and June 2018 and all the members attended the meeting. The matters discussed included (i) the adoption of the share award scheme; (ii) the review of the remuneration policy of the Group's directors and senior management; and (iii) the review of incentive bonus paid to directors and senior management for 2018.

Details of the remuneration of each director are set out in the consolidated financial statements on pages 148 to 149.

NOMINATION COMMITTEE

As at 31 December 2018, the Nomination Committee comprises four Directors: Mr. YU Pan (the Chairman of the Board and Nomination Committee) and all three Independent Non-executive Directors, namely, Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The roles and functions of the Nomination Committee, amongst others, are to make recommendations to the Board on the procedures of appointment of directors and the selection from individuals nominated for directorship; to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; and to make recommendations on any proposed changes to the Board to complement the Group's corporate strategies. The terms of reference of the Nomination Committee are available at the Company's website at www.tianyudc.com and the Stock Exchange's website at www.hkex.com.

The Nomination Committee held one meeting in March 2018 to which all members attended. The matters discussed included (i) the review of the size, structure and composition of the Board; (ii) the assessment of the independence of independent non-executive directors; and (iii) the recommendation of retiring Directors for re-election in 2018 annual general meeting. In October 2018, the Nomination Committee has passed a written resolution to make recommendation to the Board on the appointment of a new executive director.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

As at 31 December 2018, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan (Chairman of the Audit Committee), Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong.

The roles and functions of Audit Committee, amongst others, are as follows:

1. to review the integrity of accounts and financial reporting procedures;

2. to review and oversee the effectiveness of internal control systems;

3. to appoint external auditors and assess their qualifications, independence and performance; and

4. to review periodically the Company's and the Group's accounts for compliance with applicable accounting standards, legal and regulatory requirements on financial disclosures.

The terms of reference of the Audit Committee are available at the Company's website at www.tianyudc.com and the Stock Exchange's website at www.hkex.com.

The Audit Committee held three meetings in March, August and December 2018 to which all members attended except one member was absent in the meeting held in August 2018. The matters discussed in the meetings included: (i) reviewing the financial statements of the Company for the year ended 31 December 2017 and the six months ended 30 June 2018 before submission to the Board for approval; (ii) considering the findings disclosed in the bi-annual internal audit reports prepared by the Internal Audit Department; (iii) reviewing and discussing the effectiveness of the Group's internal controls system with the Chief Internal Auditor; and (iv) reviewing and discussing the 2019 work plan of Internal Audit Department; and (v) reviewing the status report of the Risk Management Committee in respect of their work done in 2018. The representatives of the external auditor were present at the meetings held on 14 December 2018 and 26 March 2018 and discussed with the committee members, amongst the other agendas, the scope of audit for the year ended 31 December 2018 and presented their findings on major issues to the committee members on the audit of the financial statements for the year ended 31 December 2017. Both the annual results for the year ended 31 December 2017 and the interim result for the six months ended 30 June 2018 have been reviewed by the Audit Committee before presenting to the Board for approval.

AUDITORS' REMUNERATION

BDO Limited was re-appointed by the shareholders as the Company's auditor during 2018. Their engagement of the audit for 2018 was reviewed and approved by the Audit Committee on a meeting held on 14 December 2018.

During the year under review, the remuneration paid/payable to the Company's auditor is set out as follows:

Nature of service	**Fees** *(Renminbi)*
Audit services	
– Current year	2,173,000
Non-audit services (note)	
– Accountancy report	1,189,000
– Disbursements	33,000
TOTAL	3,395,000

Note: The services provided was for (i) the issue of accountancy report in relation to the Company's major transaction and (ii) issue of bonds of the Company.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of good communications with shareholders of the Company and understands that the Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. The members of the Board and committee members and the external auditor, where appropriate, are present to answer shareholders' questions in the meetings. Meeting circulars are distributed to all shareholders before the annual general meeting and special general meetings in accordance with the timeline requirement as laid down in the Listing Rules and the Bye-laws. All the resolutions proposed to be approved at the general meetings are taken by poll. The chairman of the meeting and/or the secretary of the Company explain the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. Independent scrutineers are engaged to supervise the entire process of the voting. An announcement of the results of the poll will be published on the Company's websites at www.tianyudc.com and the Stock Exchange's at www.hkex.com.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has defined policy, namely the "Policies on Preservation and Disclosure of Price Sensitive Information", to govern the release of price sensitive information to the public in an equal, timely and effective manner to enable shareholders' easy appraisal of the Company's performance and business development, and senior staff who obtains sensitive information are refrained from dealing with shares of the Company. The Company has made prompt releases of information about the business and other affairs of the Group to the public and announced its annual and interim results in a timely manner within the time limits as laid down in the Listing Rules.

The 2019 annual general meeting is scheduled to be held at *Empire Room 1, 1st Floor, Empire Hotel Hong Kong • Wanchai, 33 Hennessy Road, Wanchai, Hong Kong on Friday, 31 May 2019 at 3:00 p.m..*

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

To protect the rights of shareholders to have reasonable involvements in the Company's affairs, the Bye-laws and applicable laws in Bermuda (the place of incorporation of the Company) provide shareholders the following rights about the holding of general meetings of the Company:

Rights to convene a special general meeting

Pursuant to the Bye-law 58 of the Company's Bye-Laws, members of the Company, 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 to transact or discuss any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of each requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Procedures for putting forward proposals at shareholders' meeting

Subject to Section 79 of The Companies Act 1981 of Bermuda, it shall be the duty of the Company, on the requisition in writing of (i) either any number of members representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than one hundred members, at the expense of the requisitionists:

(a) to give to members of the company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

(b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

Notice of any such intended resolution shall be deposited to the Company's registered office or principal place of business in Hong Kong not less than six weeks before the meeting (in the case of a requisition requiring notice of a resolution); and not less than one week before the meeting (in the case of any other requisition) together with a sum reasonably sufficient to meet the Company's expenses in sending the notice.

Upon receiving the requisition, the Company would take appropriate actions and make necessary arrangements in accordance with the requirements under the provision of the Bye-laws and Sections 79 and 80 of The Companies Act 1981 of Bermuda.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (continued)

Company's contact details

For general enquires:

Enquiries, concerns and requisitions to the Board can be addressed to: (i) for shareholders and corporate investors, the secretary of the Company at the principal place of business in Hong Kong at Unit 1401, 14/F., Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong, or by fax to (852) 2890 4459, or by email to cs@sfr59.com or (ii) for other stakeholders, the customer officer at the head office in Guangzhou at 33/F., HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, the PRC (Postage code: 510610), or by telephone to (86 20) 2208 2888, or by fax to (85 20) 2208 2777.

For suggestions and complaints:

All the suggestions and complaints can be sent to our Hong Kong and Guangzhou offices as stated above or through the Company's website at www.tianyudc.com. The Company has set up separate mail box (tousu@tianyudc.com) and telephone lines (86(20) 2208 2803 and 2208 2827) to receive shareholders' and other stakeholders' suggestions and complaints which will be served by an officer designated for the relevant issues.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has overall responsibilities for maintaining sound and effective risk management and internal control systems of the Group. The management is responsible for designing a system of well-defined policies, controls and procedures which are executed from time to time. The Chief Internal Auditor and risk management team report to the Board regularly on the effectiveness of these control systems.

Internal Audit Department

The internal audit department is a designated operating unit set up in the Group which plays a dominating role to ensure the internal control and risk management systems are functioning. The Group's system of internal control includes a defined management structure with clear lines of reporting, limits of authority that are designed to help the management team to carry out the daily management functions for the accomplishment of the Group's business strategies. The internal audit department plays an important lead in the development of internal control systems of the Group that safeguard its assets against unauthorised use or disposition, to maintain proper accounting records of reliable financial information, and to comply with relevant laws and regulations. The internal control systems are designed to provide reasonable, though not absolute, assurance against material misstatement or loss, and to mitigate failure in material aspects in the Group's operations.

Risk Management Committee

The Board set up the Risk Management Committee in December 2014. The Risk Management Committee comprises one Executive Director, Mr. WEN Xiaobing and three Independent Non-executive Directors, namely Mr. CHOY Shu Kwan, Mr. CHENG Wing Keung, Raymond and Ms. CHUNG Lai Fong. The committee delegates its routine monitoring function to the risk management team which assists the management to develop systems to highlight risks and controls to alleviate risks. The risk management team consists of a risk management officer and the head of the internal audit department who report to the committee as to how the risk management work are carried out by the management and key risk factors highlighted by management are relieved and are addressed to the committee for review and recommendations.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT (continued)

Risk Management Committee (continued)

The Risk Management Committee held one meeting in December 2018 to review the works performed and difficulties encountered by the risk management team during the year. Those highlighted high level risks factors, covering aspects on strategic, regulatory, operational, financial and liquidity, were discussed in the meeting in which control measures defined by operating units for alleviation of risks were focused.

The major roles and functions of risk management team are to monitor and review the risk management system and advise to the Board about the effectiveness of and improvements to be made to the existing system and to review the internal control policies associated with the management of risks to ensure adequate control procedures have been developed in daily management to identify and encounter the risks.

The terms of reference of the Risk Management Committee are available at the Company's website at www.tianyudc.com and the Stock Exchange's website at www.hkex.com.

Regular Review of the Risk Management and Internal Control Systems

Through regular interactions with the internal auditor and the Audit Committee, the Board has assessed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2018. The Chief Internal Auditor reports to the Chairman of the Board regularly and periodically to the Board through the Audit Committee with findings on regular and ad hoc internal audits. He developed the work plan setting out the objectives and scopes of the audit work to be undertaken for the year 2019 in late 2018 which was approved by the Audit Committee. The internal audit covers testing on controls over financial, operation and compliance aspects of the Group. In the internal audit reports issued by the internal audit department, the Chief Internal Auditor highlights deficiencies in controls and makes recommendations on the internal control systems to the responsible managers in the operating units under internal review. Interim and annual internal audit reports issued by the internal audit department during the year 2018, comprising the details of audit work, findings and recommendations of improvements in all audit assignments performed by the internal control department, have been reviewed and discussed by the Audit Committee during the two audit committee meetings held in August and March 2018. In the internal audits performed in the year, the Chief Internal Auditor identified no fundamental deficiencies with material adverse consequences, but pointed out potential risks and areas for improvements and recommended to the management the remedial actions to be taken by the management team. The internal audit department consistently follows up those highlighted issues with the departments covered by the audits to ensure proper improvement measures are executed by management and also the follow-up results are reported in its audit reports. Based on the audit findings and management responses noted from the assignments, though enhancements are required in certain areas that need to be taken for further improvements, the Board considers that, overall, the existing internal control system is effective and adequate in controlling the operations and safeguarding the assets of the Company, and can prevent irregularities and protect the interests of its shareholders in material aspects.

DIRECTORS' REPORT

The Directors herein present their annual report together with the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are property development, property investment, property management and provision of commercial services at our youth community projects.

BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, an analysis of key performance indicators, a description of the principal risks and uncertainties facing the Group, and the Group's environmental policies and performance are set out under the section "Management Discussion and Analysis" on pages 9 to 25 and Environmental, Social and Governance Report on pages 29 to 65 of this annual report respectively.

There is no important event affecting the Group that has occurred after the year ended 31 December 2018. Details of the Company's relationships with its employees, suppliers and customers who have significant impacts on the Group and on which the Group's success depends are set out in Environmental, Social and Governance Report under the section headed "Social" in paragraphs B1 (Employment), B5 (Supply Chain Management) and B6 (Product Responsibility/Customers Service and Privacy).

The Group has strictly complied with relevant laws and regulations which have a significant impact on the operations of the Group during the year. In this regard, the Company has retained an in-house legal consultant and outsourced legal advisers in the PRC to provide advices on legal matters and, when necessary, will consult external lawyers of other territories in contemplated transactions.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 92.

The Board proposed to declare a final dividend of HK$0.023 per share for the year ended 31 December 2018. The proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting and, if approved, will be paid in Hong Kong dollars.

DIVIDEND

At a meeting of reviewing the half-yearly and annual results of the Company, the Board will determine if dividend will be paid to shareholders and the extent of distribution. The maximum distributable amount of dividend shall be twenty percent (20%) of the consolidated post-tax profit of the Group for the period. However, such distribution ratio will be subject to adjustment after the Board's taking into account of other factors, including profit available for distribution by subsidiaries for the period end undistributed reserve as at the financial year end date, cash flow forecast of the Group, restriction from foreign exchange control and restriction from creditors over borrowers. However, if under special circumstances, where the profit is above the normal level, the Board can propose a special resolution if necessary to distribute a special dividend of higher ratio to shareholders.

The Board will realign such dividend distribution after taking account of the changes in business environment, the outlook of cash flow and financing arrangement.

DIRECTORS' REPORT

PRINCIPAL PROPERTIES

Details of the Group's principal properties held for development, properties held for sale and investment properties are set out in notes 22, 23 and 17 to the financial statements respectively.

SHARE ISSUED IN THE YEAR

Upon the Company's subdivision of every one (1) issued and unissued share of the Company of par value of HK$0.01 into three (3) subdivided shares of the Company of par value of one third Hong Kong cent each (the "**Share Subdivision**") was effective on 22 October 2018, the authorised share capital of the Company became HK$300,000,000 divided into 90,000,000,000 shares of par value of one third Hong Kong cent each, of which 7,911,401,955 subdivided shares of par value of one third Hong Kong cent each was issued as fully paid and rank pari passu with each other in all respects with the shares in issue prior to the Share Subdivision.

During the year of 2018, an aggregate of 40,296,400 Shares (having adjusted for subdivision of shares) and 28,087,006 Shares (having adjusted for subdivision of shares) were allotted and issued upon the exercise of options by some employees and a director granted under the 2015 Option Scheme and 2005 Option Scheme at the adjusted exercise price of HK$0.3607 and HK$0.2238 per Share respectively.

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

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2018, the Company's distributable reserves amounted to RMB1,443.6 million (inclusive of the Company's share premium account in the amount of approximately RMB1,691.7 million which can be distributed to shareholders of the Company in the form of fully paid bonus shares in accordance with Section 40 of the Companies Act 1981 of Bermuda). Thus, the Board recommends the payment of a final dividend in form of cash of HK$0.023 per Share for the year ended 31 December 2018.

EQUITY LINKED AGREEMENTS

Other than the share options granted by the Company as disclosed below, no equity-linked agreements that will or may result in the Company issuing shares were entered into by the Company during the year.

Share Options

The Company adopted another share option scheme on 9 June 2015 (the "**2015 Scheme**") upon the expiry of the old scheme adopted in 2005 (the "**2005 Scheme**") to provide incentives and rewards to eligible participants who are directors of the Company and employees of the Group.

During the year, no share option was granted to eligible participants. During the period from 1 January 2018 to 21 October 2018, 6,060,810 share options and 12,976,000 share options granted under the 2005 Scheme and 2015 Scheme were exercised for subscription of 6,060,810 and 12,976,000 Shares at respective exercise prices of HK$0.6714 and HK$1.082 per Share. After the sub-division of shares became effective and during the period from 22 October 2018 to 31 December 2018, 9,904,576 share options and 1,368,400 share options granted under the 2005 Scheme and 2015 Scheme were exercised for subscription of 9,904,576 and 1,368,400 Shares at respective adjusted exercise prices of HK$0.2238 and HK$0.3607 per Share. There were in total 177,804,967 share options granted under the 2005 Scheme and 2015 Scheme outstanding as at 31 December 2018.

Details of the share options scheme are set out in note 38 to the financial statements.

DIRECTORS' REPORT

SHARE AWARDS

On 3 July 2018, the Company has adopted a share award scheme (the "**Share Award Scheme**") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. Unless terminated earlier pursuant to the terms of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a period of ten (10) years commencing on its adoption date. The maximum aggregate number of shares to be awarded by the Board under the Share Award Scheme shall not exceed 5% of the issued share capital of the Company from time to time. The maximum aggregate number of the awarded shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.\

Details of the Share Award Scheme are set out in note 39 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 37 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

None of the customers of the Group contributed more than 10% of the Group's revenue for the year.

The aggregate purchases attributable to the Group's largest supplier, being a main contractor for projects and five largest suppliers accounted for approximately 22.4% and 71.4%, respectively, of the Group's total purchases for the year.

To the knowledge of the Directors, none of the Directors and their associates, or any shareholders who own more than 5% of the Company's share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

DIRECTORS' REPORT

DIRECTORS AND THEIR SERVICE CONTRACTS

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

Executive Directors

Mr. YU Pan *(Chairman and Chief Executive Officer)*
Mr. WEN Xiaobing *(Deputy Chief Executive Officer))*
Mr. WANG Chenghua *(appointed on 22 October 2018)*

Non-executive Director

Mr. WONG Lok *(re-designated from executive director to non-executive director on 1 January 2019)*
Mr. LI Weijing *(resigned on 22 Oct 2018)*
Ms. LIU Juan *(appointed on 22 October 2018 and resigned on 18 February 2019)*

Independent Non-executive Directors

Mr. CHOY Shu Kwan
Mr. CHENG Wing Keung, Raymond
Ms. CHUNG Lai Fong

In accordance with the Bye-law 83(2) of the Company's amended and restated bye-laws (the "**Bye-laws**"), Mr. WANG Chenghua, will retire from office at the forthcoming annual general meeting and being eligible, will offer himself for re-election.

In accordance with Bye-law 84(1) of the Bye-laws, Mr. WONG Lok and Mr. CHOY Shu Kwan will retire from office by rotation at the forthcoming annual general meeting and being eligible, will offer themselves for re-election.

None of the Directors being proposed for re-election at the forthcoming general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Except as those disclosed in the section of "Connected Transactions" of the report hereinafter, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its holding company was a party and in which a director and/or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Specific Performance Obligations of the Controlling Shareholder

Pursuant to the terms of various bonds instruments and certain facility agreements entered into between the Company and various lenders, a change of control event (a "**Change of Control Event**") happens if Mr. YU Pan and his associates (as defined under the Listing Rules) cease to (i) collectively be the beneficial owners (directly or indirectly through wholly owned subsidiaries) of at least 30% or 50%, as applicable, of the issued share capital of the Company, or (ii) be the largest shareholder of the Company. Upon the occurrence of a Change of Control Event, the lenders will declare the outstanding loan together with accrued interest and all other amounts accrued to be immediately due and payable.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS (continued)

Charge of Shares by Controlling Shareholder

As security for the obligations of the Company under the various finance documents, (i) each of Mr. YU Pan and Grand Cosmos Holdings Limited ("**Grand Cosmos**"), a company indirectly held by Mr. Yu Pan, entered into separate collateral agreements with China Huarong International Holdings Limited ("**Huarong**") on 27 July 2017 and deposited 260,580,000 and 705,000,000 Shares (having adjusted for sub-division of shares), respectively, into the securities accounts with Huarong International Securities Limited and charged the same in favour of Huarong and the charges were subsequently released in February 2019 on the Company's full settlement of the borrowings; (ii) Grand Cosmos entered into a security deed in favour of Haitong International Financial Solutions Limited ("**Haitong IFSL**") on 14 December 2017 and deposited 3,000,000,000 Shares (having adjusted for sub-division of shares) into the securities account with Haitong Securities Co., Ltd. and charged the same in favour Haitong IFSL; (iii) Grand Cosmos entered into a share charge in favour of West Ridge Investment Company Limited ("**West Ridge**") on 17 April 2018 and deposited 144,000,000 Shares (having adjusted for sub-division of shares) into the securities account with Haitong Securities Co., Ltd. and charged the same in favour West Ridge of which 26,160,000 Shares (having adjusted for sub-division of shares) were released upon the exercise of exchange rights by West Ridge in September 2018, resulting in the number of Shares charged reduced to 117,840,000 Shares (after adjusted for sub-division of shares).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out in section headed "Brief biographical details of directors and senior management" on page 26.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(a) Interests in the Shares or underlying Shares

Name of Director	Company/ Associated corporation	Capacity	Number of Shares or underlying Shares *(note 1)*	Approximate shareholding percentage *(note 2)*
Mr. YU Pan	Company	Interest of controlled corporation and/or beneficial owner	5,700,925,221 (long) 26,173,332 (short)	71.96% 0.33%

Notes:

1. These Shares comprised (i) 685,092,000 existing Shares directly held by Mr. YU Pan; and (ii) 5,015,833,221 existing Shares held directly by Grand Cosmos. The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("**Sharp Bright**"), the entire issued share capital of which was held by Mr. YU Pan. Of the 5,700,925,221 Shares, (i) 705,000,000 and 260,580,000 Shares were charged by Grand Cosmos and Mr. YU Pan respectively in favour of China Huarong International Holdings Limited pursuant to two collateral agreements both dated 27 July 2017 in relation to a loan facility of HK$500 million granted to the Company and the charges were subsequently released upon repayment of the aforesaid loan in February 2019; (ii) 3,000,000,000 Shares were charged by Grand Cosmos in favour of Haitong IFSL as security trustee pursuant to a security deed dated 14 December 2017 in relation to a term loan facility granted to Grand Cosmos by Haitong IFSL; and (iii) 117,840,000 Shares were charged by Grand Cosmos in favour of West Ridge pursuant to a share charge dated 17 April 2018 in relation to a redeemable exchangeable bond in the principal amount of HK$78,500,000 issued by Grand Cosmos to West Ridge of which HK$39,240,000 was exchanged for 26,160,000 Shares (having adjusted for sub-division of shares) upon exercise of the exchange right in September 2018. The balance of the loan of HK$39,260,000 is exchangeable for 26,173,332 Shares at an adjusted exchange price of HK$1.5 per Share upon exercise of the exchange right. Further pursuant to a second supplemental exchangeable bond instrument dated 31 January 2019, the exchange price is revised to HK$1.2 per Share which resulting the balance of the loan of HK$39,260,000 is exchangeable for 32,716,666 Shares upon exercise of the exchange right.

2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 7,922,674,931 Shares in issue as at 31 December 2018.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

(b) Interests in underlying Shares arising from share options

As at 31 December 2018, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme and 2015 Scheme:

Name of Director	Exercise price (adjusted) (HK$)	Exercise period	Number of underlying Shares	Approximate shareholding percentage *(note 2)*
Mr. WEN Xiaobing	0.2238	11 August 2015 to 10 August 2021	9,529,291	0.12%
	0.3607	26 June 2016 to 25 June 2025 *(note 1)*	24,000,000	0.30%
Mr. CHOY Shu Kwan	0.3607	26 June 2016 to 25 June 2025 *(note 1)*	3,000,000	0.04%
Mr. CHENG Wing Keung, Raymond	0.3607	26 June 2016 to 25 June 2025 *(note 1)*	3,000,000	0.04%
Ms. CHUNG Lai Fong	0.3607	26 June 2017 to 25 June 2025 *(note 1(ii) to (vii))*	2,142,000	0.03%

Notes:

1. (i) First tranche (14.3% of the Options granted) is exercisable from 26 June 2016 to 25 June 2025;

   (ii) Second tranche (14.3% of the Options granted) is exercisable from 26 June 2017 to 25 June 2025;

   (iii) Third tranche (14.3% of the Options granted) is exercisable from 26 June 2018 to 25 June 2025;

   (iv) Fourth tranche (14.3% of the Options granted) is exercisable from 26 June 2019 to 25 June 2025;

   (v) Fifth tranche (14.3% of the Options granted) is exercisable from 26 June 2020 to 25 June 2025;

   (vi) Sixth tranche (14.3% of the Options granted) is exercisable from 26 June 2021 to 25 June 2025; and

   (vii) Seventh tranche (14.2% of the Options granted) is exercisable from 26 June 2022 to 25 June 2025.

2. For the purpose of this section, the percentage of shareholding in the Company was calculated on the basis of 7,922,674,931 Shares in issue as at 31 December 2018.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors and his/her respective close associates had any other interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules).

SUBSTANTIAL SHAREHOLDERS

At 31 December 2018, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares and underlying Shares		Approximate shareholding percentage *(note 2)*
Sharp Bright	Interest of controlled corporation	5,015,833,221 26,173,332 *(note 1)*	(long) (short)	63.31% 0.33%
Grand Cosmos	Beneficial owner	5,015,833,221 26,173,332 *(note 1)*	(long) (short)	63.31% 0.33%
China Huarong International Holdings Limited	Person having a security interest in shares	965,580,000	(long)	12.19%
China Huarong Asset Management Co., Ltd.	Interest of controlled corporation	965,580,000	(long)	12.19%
Ministry of Finance of the People's Republic of China	Interest of controlled corporation	965,580,000	(long)	12.19%
Haitong International Financial Solutions Limited	Person having a security interest in shares	3,000,000,000	(long)	37.87%
Haitong International Holdings Limited	Interest of controlled corporation	3,144,013,332	(long)	39.68%
Haitong International Securities Group Limited	Interest of controlled corporation	3,144,013,332	(long)	39.68%
Haitong Securities Co., Ltd.	Interest of controlled corporation	3,144,013,332	(long)	39.68%

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

1. The 5,015,833,221 existing Shares were held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. YU Pan, Mr. YU Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. Of 5,015,833,221 Shares, (i) 705,000,000 Shares and 260,580,000 Shares were charged by Grand Cosmos and Mr. YU Pan respectively in favour of China Huarong International Holdings Limited pursuant to two collateral agreements both dated 27 July 2017 in relation to a loan facility of HK$500 million granted to the Company and the share charge was released upon the Company's fully repayment of the loan in February 2019; and (ii) 3,000,000,000 Shares were charged in favour of Haitong IFSZ as security trustee pursuant to a security deed dated 14 December 2017 in relation to a term loan facility granted to Grand Cosmos by Haitong IFSZ; and (iii) 117,840,000 Shares were charged by Grand Cosmos in favour of West Ridge pursuant to a share charge dated 17 April 2018 in relation to a redeemable exchangeable bond in the principal amount of HK$78,500,000 issued by Grand Cosmos to West Ridge of which HK$39,240,000 was exchanged for 26,160,000 Shares (having adjusted for sub-division of shares) upon exercise of the exchange right in September 2018 and balance of the loan of HK$39,260,000 is exchangeable for 26,173,332 Shares at an adjusted exchange price of HK$1.5 per Share upon exercise of the exchange right. Further pursuant to a second supplemental exchangeable bond instrument dated 31 January 2019, the exchange price is revised to HK$1.2 per Share which resulting the balance of the loan of HK$39,260,000 is exchangeable for 32,716,666 Shares upon exercise of the exchange right.

2. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 7,922,674,931 Shares in issue as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any persons or corporations who had long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

CONNECTED TRANSACTIONS

Save as the transactions stated in note 46 to the consolidated financial statements, none of the Directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2018 which was significant in relation to the business of either the Group or has any material personal interest.

RETIREMENT BENEFIT SCHEMES

Particular of the retirement benefits schemes of the Group are set out in note 41 to the financial statements.

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 existing shareholders.

FIVE YEARS 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 218.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, the Director(s) shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation to any affairs of the Company.

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

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

YU Pan
Chairman
Hong Kong, 22 March 2019

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") set out on pages 92 to 217, which comprise the consolidated statement of financial position as at 31 December 2018, 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.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Carrying value of properties under development and properties held for sale
The Group held several property projects and had entered into several arrangements during the year ended 31 December 2018 with a view to acquiring the underlying assets for property development.

The carrying amounts of the Group's properties under development and properties held for sale as at 31 December 2018 were RMB7,554 million and RMB4,144 million respectively.

For the properties under development, management determined the net realisable value of the properties using the discounted cash flow forecast, which involved the use of estimates and assumptions including selling prices, construction costs and discount rate.

For the properties held for sale, management determined the net realisable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties.

Independent external valuations were obtained in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including the costs of completion and fair market prices of similar nature. The valuations of these properties are also dependent upon the estimated costs to complete and expected developer's profit margin.

We have identified the carrying values of properties under development and properties held for sale as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 22 and 23 in the consolidated financial statements.

How our audit addressed the key audit matter:
Our procedures in relation to management's valuation of these properties included:

- Reading the signed sales and purchase agreements to identify the rights and obligations of the Group and vendors;

- Discussing with the management and understanding the details of the properties development projects;

- Obtaining and reviewing the statutory records for transfer of shares of the vehicles holding the properties development projects;

- Checking to payment advices and verifying the amounts paid;

- Assessing the appropriateness of the methodologies used by management for the assessments of the net realisable value of properties under development and properties held for sale;

- Evaluation of the independent external valuers' competence, capabilities and objectivity;

INDEPENDENT AUDITOR'S REPORT

- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and

- Checking, on a sample basis, the accuracy and relevance of the input data used.

Valuation of investment properties
Management estimated the fair value of the Group's investment properties to be RMB2,907 million at 31 December 2018, with a revaluation gain of RMB66 million and gain on properties valuation of RMB203 million for the year ended 31 December 2018 recorded in the consolidated statement of profit or loss. Independent external valuations were obtained for the investment properties in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and fair market rents.

We identified valuation of investment properties as a key audit matter because of its significance to the consolidated financial statements.

Refer to note 17 in the consolidated financial statements.

How our audit addressed the key audit matter:
Our procedures in relation to management's valuation of investment properties included:

- Evaluation of the independent external valuers' competence, capabilities and objectivity;

- Assessing the methodologies used by the valuer and the appropriateness of the key assumptions based on our knowledge of the property industry; and

- Checking, on a sample basis, the accuracy and relevance of the input data used.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

INDEPENDENT AUDITOR'S REPORT

DIRECTORS' RESPONSIBILITIES 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 are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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.

This report is made solely to you, as a body, in accordance with Section 90 of Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

INDEPENDENT AUDITOR'S REPORT

- 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.

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 directors, 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.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate no. P05443

Hong Kong, 22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	7	**6,191,763**	4,080,514
Cost of sales and services		**(4,305,878)**	(3,197,387)
Gross profit		**1,885,885**	883,127
Other income and gains, net		**7,662**	34,100
Sales and marketing expenses		**(156,851)**	(152,913)
Administrative and other expenses		**(305,691)**	(219,828)
Unrealised exchange (losses)/gains		**(74,171)**	111,909
Impairment loss on trade and other receivables		**(5,721)**	–
Impairment loss on loan to a non-controlling shareholder of a subsidiary		**(524)**	–
Fair value changes in investment properties	17	**66,405**	35,701
Gain on properties valuation	17	**203,297**	353,351
Impairment loss on goodwill	18	**(13,554)**	–
Gain from bargain purchase	40(c)	**81,214**	–
Share of loss of joint venture, net of tax		**(8,101)**	–
Fair value changes in derivative financial asset/liabilities		**(1,476)**	13,080
Gain on early repayment of unsecured bonds		**1,979**	–
Loss on early repayment of term loans		**–**	(23,418)
Finance costs	8	**(53,920)**	(33,088)
Finance income	8	**17,669**	36,483
Profit before income tax	9	**1,644,102**	1,038,504
Income tax expenses	13	**(823,346)**	(491,232)
PROFIT FOR THE YEAR		**820,756**	547,272
Other comprehensive income, items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on foreign operations		**(4,043)**	2,827
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**816,713**	550,099
Profit for the year attributable to:			
– Owners of the Company	14	**751,315**	550,460
– Non-controlling interests		**69,441**	(3,188)
		820,756	547,272
Total comprehensive income for the year attributable to:			
– Owners of the Company		**747,272**	553,287
– Non-controlling interests		**69,441**	(3,188)
		816,713	550,099
			(Restated)
Earnings per share	14		
– Basic		**RMB0.095**	RMB0.070
– Diluted		**RMB0.092**	RMB0.069

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	16	**693,859**	239,497
Investment properties	17	**2,907,157**	1,094,400
Goodwill	18	**–**	13,554
Interest in a joint venture	20	**15,899**	–
Financial asset at fair value through profit or loss	19	**10,000**	–
Available-for-sale investment	19	**–**	10,000
Loan to a non-controlling shareholder of a subsidiary	25	**–**	52,900
Derivative financial assets	33	**60,388**	46,144
Deferred tax assets	35	**25,649**	18,142
		3,712,952	1,474,637
Current assets			
Properties held for development	22	**–**	488,072
Properties under development	22	**7,554,327**	3,552,378
Properties held for sale	23	**4,144,040**	3,754,243
Loan to a non-controlling shareholder of a subsidiary	25	**51,847**	–
Trade and other receivables	26	**1,611,504**	1,200,792
Prepayment/deposits for proposed projects for sale	27	**994,928**	1,385,269
Contract costs	2	**80,698**	–
Short-term investments	28	**–**	100,000
Restricted and pledged deposits	29	**676,630**	1,313,264
Cash and cash equivalents	30	**2,410,063**	2,983,799
		17,524,037	14,777,817
Current liabilities			
Trade and other payables	31	**2,058,288**	1,374,346
Contract liabilities	2	**8,559,878**	–
Properties pre-sale deposits	2	**–**	7,821,274
Bank and other borrowings – current portion	33	**2,817,188**	1,171,198
Derivative financial liabilities – current portion	33	**2,138**	–
Amount due to a joint venture	34	**55,817**	–
Consideration payable	40(c)	**50,000**	–
Income tax payable		**251,998**	137,192
		13,795,307	10,504,010
Net current assets		**3,728,730**	4,273,807
Total assets less current liabilities		**7,441,682**	5,748,444

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Bank and other borrowings			
– non-current portion	33	**3,534,510**	3,104,096
Derivative financial liabilities			
– non-current portion	33	**8,757**	12,333
Deferred tax liabilities	35	**594,856**	253,388
		4,138,123	3,369,817
Net assets		**3,303,559**	2,378,627
Capital and reserves			
Share capital	36	**24,659**	24,469
Reserves	37	**2,888,766**	2,301,560
Equity attributable to owners of the Company		**2,913,425**	2,326,029
Non-controlling interests		**390,134**	52,598
Total equity		**3,303,559**	2,378,627

On behalf of the Board

YU Pan
Director

WANG Chenghua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

		Attributable to owners of the Company												
	Notes	Share capital	Share premium	Contributed surplus reserve	Share-based payment reserve	Share held for share award scheme reserve	Merger reserve	Statutory reserves	Foreign exchange reserve	Other/ capital reserve	Retained profits	Sub-total	Non-controlling interests	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017		24,456	1,662,587	16,116	19,178	–	(293,095)	6,471	(1,441)	743	330,094	1,765,109	34,859	1,799,968
Profit/(loss) for the year		–	–	–	–	–	–	–	–	–	550,460	550,460	(3,188)	547,272
Other comprehensive income		–	–	–	–	–	–	–	2,827	–	–	2,827	–	2,827
Total comprehensive income/(expenses) for the year		–	–	–	–	–	–	–	2,827	–	550,460	553,287	(3,188)	550,099
Issue of shares: Exercise of share options	*38*	13	2,162	–	(727)	–	–	–	–	–	–	1,448	–	1,448
Capital contribution		–	–	–	–	–	–	–	–	–	–	–	25,529	25,529
Recognition of equity-settled share-based payment expenses	*38*	–	–	–	6,185	–	–	–	–	–	–	6,185	–	6,185
Dividend paid to non-controlling shareholder		–	–	–	–	–	–	–	–	–	–	–	(4,602)	(4,602)
At 31 December 2017 and 1 January 2018		24,469	1,664,749	16,116	24,636	–	(293,095)	6,471	1,386	743	880,554	2,326,029	52,598	2,378,627
Effect on adoption of HKFRS 9	*2*										(3,645)	(3,645)	–	(3,645)
Effect on adoption of HKFRS 15	*2*										21,222	21,222	–	21,222
At 1 January 2018 (restated)		**24,469**	**1,664,749**	**16,116**	**24,636**	**–**	**(293,095)**	**6,471**	**1,386**	**743**	**898,131**	**2,343,606**	**52,598**	**2,396,204**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**751,315**	**751,315**	**69,441**	**820,756**
Other comprehensive expenses		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,043)**	**–**	**–**	**(4,043)**	**–**	**(4,043)**
Total comprehensive (expenses)/income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,043)**	**–**	**751,315**	**747,272**	**69,441**	**816,713**
Issue of shares: Exercise of share options	*38*	**190**	**26,924**	**–**	**(9,498)**	**–**	**–**	**–**	**–**	**–**	**–**	**17,616**	**–**	**17,616**
Capital contribution		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Arising on acquisition of subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**268,084**	**268,084**
Recognition of equity-settled share-based payment expenses	*38*	**–**	**–**	**–**	**5,709**	**–**	**–**	**–**	**–**	**–**	**–**	**5,709**	**–**	**5,709**
Purchase of shares for share award scheme	*39*	**–**	**–**	**–**	**–**	**(114,691)**	**–**	**–**	**–**	**–**	**–**	**(114,691)**	**–**	**(114,691)**
Dividend and distributions		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(86,087)**	**(86,087)**	**–**	**(86,087)**
At 31 December 2018		**24,659**	**1,691,673**	**16,116**	**20,847**	**(114,691)**	**(293,095)**	**6,471**	**(2,657)**	**743**	**1,563,359**	**2,913,425**	**390,134**	**3,303,559**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Net cash from operating activities	40(a)	**2,402,802**	972,514
Investing activities			
Interest received		**17,669**	42,543
Acquisition of subsidiaries, net of cash acquired	40(c)	**(481,369)**	–
Purchases of property, plant and equipment		**(18,505)**	(9,273)
Acquisition of assets		**(193,973)**	–
Investments in a joint venture		**(24,000)**	–
Advanced from a joint venture		**55,817**	–
Purchase of short-term investments		**–**	(951,000)
Proceeds from short-term investments		**100,000**	851,000
Decrease/(increase) in restricted and pledged deposits		**636,634**	(325,974)
Net cash from/(used in) investing activities		**92,273**	(392,704)
Financing activities	40(b)		
Purchase of ordinary shares for share award scheme	39	**(114,691)**	–
Proceeds from issue of ordinary shares for share option scheme	38	**17,616**	1,448
Proceeds from bank and other borrowings		**4,797,745**	5,158,509
Repayment of bank and other borrowings		**(6,797,103)**	(2,587,677)
Other borrowing costs paid		**(76,296)**	(106,819)
Interest paid		**(796,598)**	(1,879,589)
Dividend paid to owners of the Company		**(86,087)**	–
Dividend paid to non-controlling interests		**–**	(4,602)
Capital contributions from non-controlling interests of subsidiaries		**2,712**	25,529
Net cash (used in)/from financing activities		**(3,052,702)**	606,799
Net (decrease)/increase in cash and cash equivalents		**(557,627)**	1,186,609
Effect of exchange rate changes on cash and cash equivalents		**(16,109)**	2,750
Cash and cash equivalents at beginning of year		**2,983,799**	1,794,440
Cash and cash equivalents at end of year	30	**2,410,063**	2,983,799

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

Skyfame Realty (Holdings) Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its (a) registered office, (b) head office and principal place of business in the People's Republic of China ("**PRC**"), and (c) principal place of business in Hong Kong are at (a) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; (b) 32nd to 33rd floors of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, PRC and (c) Unit 1401, 14th Floor, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong, respectively.

The Company's parent is Grand Cosmos Holdings Limited ("**Grand Cosmos**") and the directors of the Company (the "**Directors**") consider its ultimate holding company is Sharp Bright International Limited ("**Sharp Bright**"). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the "**BVI**").

The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**". The principal activity of the Company continues to be investment holding. Other than the operations in our youth community developments which currently do not bear operating results, assets or liabilities of significance to the Group, the principal activities of its subsidiaries are property development, property investment and property management.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

HKFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of retained earnings as of 1 January 2018 as follows (increase/(decrease)):

	RMB'000
Retained profits	
Retained earnings as at 1 January 2018 (before application of HKFRS 9 but after application of HKFRS 15)	901,776
Increase in expected credit losses ("**ECLs**") in trade receivables *(note 2(a)(ii)(I) below)*	(90)
Increase in ECLs in loan to a non-controlling shareholder of a subsidiary *(note 2(a)(ii)(II) below)*	(529)
Increase in ECLs in other receivables *(note 2(a)(ii)(III) below)*	(3,026)
Restated retained earnings as at 1 January 2018	898,131

There is no significant impact in relation to the transition of HKFRS 9 on the opening balance of non-controlling interests as of 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 9 – Financial Instruments (continued)

(i) Classification and measurement of financial instruments (continued)

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVTPL**"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "**solely payments of principal and interest**" criterion, also known as "**SPPI criterion**"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 9 – Financial Instruments (continued)

(i) Classification and measurement of financial instruments (continued)

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 9 – Financial Instruments (continued)

(i) Classification and measurement of financial instruments (continued)

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39	Carrying amount as at 1 January 2018 under HKFRS 9
			RMB'000	*RMB'000*
Other investment *(note)*	Available-for-sale (at fair value)	FVTPL	10,000	10,000
Other loans and receivables	Loans and receivables *(note 2(a)(ii)(II))*	Amortised cost	52,900	52,371
Trade receivables and other receivables	Loans and receivables *(note 2(a)(ii)(I)&(III))*	Amortised cost	1,200,792	1,199,338
Refundable deposits for proposed projects and land held for development	Loans and receivables *(note 2(a)(ii)(IV))*	Amortised cost	771,060	771,060
Restricted and pledged deposits	Loans and receivables	Amortised cost	1,313,264	1,313,264
Cash and cash equivalents	Loans and receivables	Amortised cost	2,983,799	2,983,799

Note:

Other investment represents the units issued by a fund with cash flow characteristics that do not meet the SPPI test. The Group had previously designated it as available-for-sale under HKAS 39. At the date of initial application of HKFRS 9, the Group has elected to reclassify it as FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 9 – Financial Instruments (continued)

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses (**"ECLs"**) model". HKFRS 9 requires the Group to recognised ECL for trade and other receivables and financial assets at amortised costs earlier than HKAS 39. Restricted and pledge deposits and cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and other receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 30 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 9 – Financial Instruments (continued)

(ii) Impairment of financial assets (continued)

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

(I) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance for trade receivables as at 1 January 2018 was determined as follows:

1 January 2018	Current	1 – 3 months past due	3 months – 1 year past due	More than 1 year past due	Total
Expected credit loss rate *(%)*	0.1%	2%	5%	10%	
Gross carrying amount *(RMB)*	1,370,000	380,000	542,000	539,000	2,831,000
Loss allowance *(RMB)*	(1,370)	(7,600)	(27,100)	(53,900)	(89,970)

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 were approximately RMB90,000. The loss allowances further increased by RMB4,824,000 during the year ended 31 December 2018. There is insignificant impact on loss allowance for the non-controlling interests as at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 9 – Financial Instruments (continued)

(ii) Impairment of financial assets (continued)

Impact of the ECL model (continued)

(II) Impairment of debt investments

All of the Group's other debt investments at amortised costs, loan to a non-controlling shareholder of a subsidiary, is considered to have low credit risk, and the loss allowance recognised during the year was therefore limited to 12 months ECLs.

The loss allowance for loan to a non-controlling shareholder of a subsidiary as at 1 January 2018 was determined as follows:

1 January 2018	
Expected credit loss rate *(%)*	1%
Gross carrying amount *(RMB)*	52,900,000
Loss allowance *(RMB)*	(529,000)

The increase in loss allowance for debt investment upon the transition to HKFRS 9 as of 1 January 2018 were approximately RMB529,000. The loss allowances further increased by RMB524,000 during the year ended 31 December 2018. There is insignificant impact on loss allowance for the non-controlling interests as at 1 January 2018.

(III) Impairment of other receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all other receivables. To measure the ECLs, other receivables have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance for other receivables as at 1 January 2018 was determined as follows:

1 January 2018	Current	1 – 3 months past due	3 – 6 months past due	6 months – 1 year past due	More than 1 year past due	Total
Expected credit loss rate *(%)*	0.1%	1%	3%	5%	20%	
Gross carrying amount *(RMB)*	75,016,936	10,234,323	4,661,814	864,816	13,327,267	104,105,156
Loss allowance *(RMB)*	(75,017)	(102,343)	(139,855)	(43,241)	(2,665,453)	(3,025,909)

The increase in loss allowance for other receivables upon the transition to HKFRS 9 as of 1 January 2018 were approximately RMB3,026,000. The loss allowances further increased by RMB897,000 during the year ended 31 December 2018. There is insignificant impact on loss allowance for the non-controlling interests as at 1 January 2018.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 9 – Financial Instruments (continued)

(ii) Impairment of financial assets (continued)

Impact of the ECL model (continued)

(IV) Impairment of refundable deposits for proposed projects and land held for development

Other financial assets of the Group include refundable deposits for proposed projects and land held for development at amortised cost is considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECLs. The directors considered that the loss allowance for the Group's refundable deposits for proposed projects and land held for development under 12 months ECLs are insignificant and no provision is made.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "**DIA**"):

- The determination of the business model within which a financial asset is held; and

- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The following tables summarised the impact, net of tax, of transition to HKFRS 15 on the opening balances of retained earnings as follows (increase/(decrease)):

	HKAS 18 carrying amount 31 December 2017 *RMB'000*	**Reclassification** *RMB'000*	**HKFRS 15 carrying amount 1 January 2018** *RMB'000*
Contract costs *(note 1)*	–	21,222	21,222
Contract liabilities *(note 2)*	–	7,821,274	7,821,274
Properties pre-sale deposits *(note 2)*	7,821,274	(7,821,274)	–
Retained earnings	876,909	21,222	898,131

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)

The following tables summarised the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and OCI for the year ended 31 December 2018. There was no material impact on the Groups' consolidated statement of cash flow for the year ended 31 December 2018:

Impact on the consolidated statement of financial position as of 31 December 2018

	As at 31 December 2018		
	Amounts without the adoption of HKFRS 15	**Effects of the adoption of HKFRS 15**	**Amounts as reported**
	RMB'000	*RMB'000*	*RMB'000*
Consolidated statement of financial position (extract)			
Contract costs *(note 1)*	–	80,698	80,698
Contract liabilities *(note 2)*	–	8,559,878	8,559,878
Properties pre-sale deposits *(note 2)*	8,559,878	(8,559,878)	–
Retained earnings	1,483,980	79,379	1,563,359
Non-controlling interests	388,815	1,319	390,134

Note 1: Prior to the adoption of HKFRS 15, the Group charged sales commission as expense associated with obtaining agreements for sale and purchase with property buyers to profit or loss when incurred.

Upon the adoption of HKFRS 15, management expects the incremental costs, primarily sale commission, incurred directly attributable to obtaining the property sale contracts, if recoverable, are capitalised as assets and included in contract costs. Capitalised sales commission is charged to profit or loss when the revenue from the related property sale is recognised and is included as sales and marketing expenses at that time. Prepaid sales commission of RMB21,222,000 that was previously recognised in profit or loss has been adjusted to retained earnings as at 1 January 2018.

Note 2: The Group has also changed the presentation of the following amounts in the statement of financial position to reflect the terminology of HKFRS 15:

– Contract liabilities in relation to property sales contracts were previously included in properties pre-sale deposits of RMB7,821,274,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)

The impact on the consolidated statement of profit or loss and other comprehensive income (increase/(decrease)) for the year ended 31 December 2018:

	As at 31 December 2018		
	Hypothetical amounts without the adoption of HKFRS 15	**Effects of the adoption of HKFRS 15**	**Amounts as reported**
	RMB'000	*RMB'000*	*RMB'000*
Consolidated statement of profit or loss and OCI (extract)			
Sales and marketing expenses	216,327	(59,476)	156,851
Profit for the year	757,237	59,476	816,713
Attributable to:			
Owners of the Company	689,115	58,157	747,272
Non-controlling interests	68,122	1,319	69,441

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's property development and management segments are set out below:

Product/ service	**Nature of the goods or services, satisfaction of performance obligations and payment terms**	**Nature of change in accounting policy and impact on 1 January 2018**
Property development	Customers obtain control of the property units when customers obtains the physical possession or the legal title of properties are transferred to and the collection of the consideration is probable. Revenue is thus recognised upon when the customers accept the property units so transferred. In addition, it is the Group's practice to provide standard decoration to customers to maintain the properties' quality, therefore, decoration provision is also considered as a performance obligation by practice.	Upon the adoption of HKFRS 15, the Group has to make reclassification from deposits received for sales of properties to contract liabilities and an increase in retained earnings of RMB21,222,000 was recognised for the sale commission which incurred directly attributable to obtaining a contract is capitalised and recorded in contract costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)

Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
	Financing component Should the contract contain a significant financing component, the transaction price should reflect the time value of money. The Group is not required to consider the time value of money if the period between payment and the transfer of the property unit is one year or less, as a practical expedient. In assessing whether a contract contains a significant financing component, the Group considers various factors, including the length of time between when the Group expected to transfer the property unit to the customer and when the customer pays for them, and the interest rate in the contract and prevailing interest rates in the relevant market. For contracts where the period between the payment by the customer and transfer of the promised property or service exceeds one year, the transaction price should be adjusted for the effects or a financing component, if significant. The Group has assessed that the financing component effect was insignificant.	There is no financing component considered necessary by the Group.
	Right of return No right of return is noted from the Group's contract with customers.	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)

Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
Property management	For property management services contracts, the Group recognises revenue equal to the right to invoice amount when it corresponds directly with the value to the customer of the Group's performance to date, on a monthly basis. The Group has elected the practical expedient for not to disclosure the remaining performance obligations for these type of contracts. The majority of the property management service contracts do not have a fixed term.	The Group has assessed that revenue is recognised when relevant services are rendered and the customer simultaneously receives and consumes the benefits provided by the Group's performance. The Group bills a fixed amount for each month for services provided and recognises as revenue in the amount to which the Group has a right to invoice and corresponds directly with the value of performance completed. Thus, the Group has concluded that the adoption of HKFRS 15 does not have an impact on the timing of revenue recognition.
	Financing component Should the contract contain a significant financing component, the transaction price should reflect the time value of money. The Group is not required to consider the time value of money if the period between payment and the transfer of the property unit is one year or less, as a practical expedient. In assessing whether a contract contains a significant financing component, the Group considers various factors, including the length of time between when the Group expected to transfer the property unit to the customer and when the customer pays for them, and the interest rate in the contract and prevailing interest rates in the relevant market. For contracts where the period between the payment by the customer and transfer of the promised property or service exceeds one year, the transaction price should be adjusted for the effects or a financing component, if significant. The Group has assessed that the financing component effect was insignificant.	There is no financing component considered necessary by the Group.
	Right of return No right of return is noted from the Group's contract with customers.	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(a) Adoption of new/revised HKFRSs (continued)

Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 19	Plan amendment, curtailment or settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[2]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

[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] The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments HKAS 19 Plan Amendment, Curtailment or Settlement

Amendments to HKAS 19 address the accounting for a defined benefit plan when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to (i) determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability or asset reflecting the benefits offered under the plan and the plan assets after that event, and (ii) determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability or asset, reflecting the benefits offered under the plan and the plan assets after that event and the discount rate used to remeasure that net defined benefit liability or asset.

The amendments also clarify that an entity first determines any past service cost, or gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized on profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in net interest, is recognized in other comprehensive income. The Group expects to adopt the amendments to plan amendments, curtailments or settlements occurring on or after 1 January 2019. The standard is not expected to have any impact on the Group.

Amendments to HKAS 28

The amendment clarifies that HKFRS 9 applies to long-term interests ("**LTI**") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Amendments to HKAS 1 and HKAS 8

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

HKFRS 17 – Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the investment properties, other investment and derivative financial asset/liabilities are stated at their fair values as explained in the accounting policies set out in note 4.

(c) Use of estimates and judgements

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

(d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is same as the functional currency of the Company and its principal subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combination and basis of consolidation (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Joint arrangements

The group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as either:

- *Joint ventures:* where the group has rights to only the net assets of the joint arrangement; or

- *Joint operations:* where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;

- The legal form of joint arrangements structured through a separate vehicle;

- The contractual terms of the joint arrangement agreement; and

- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

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

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold land	12 to 38 years
Buildings	12 to 30 years
Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 10 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Investment properties

Investment properties are properties held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

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

For a transfer from inventories to investment properties, any difference between the fair value of the property at the date and its previous carrying amount is recognised in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Properties under development

Properties under development are initially recognised at cost, and subsequently at the lower of cost and net realisable value. The cost of properties comprises land costs, development expenditure, professional fees and borrowing costs capitalised. Land costs include prepaid lease payments representing up-front payments to acquire long-term interests in lessee-occupied properties. Net realisable value represents 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.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

(h) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost represents the carrying amount of properties under development upon the completion of the construction of properties. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

Properties held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

(i) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when whose costs meet all of the following criteria:

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

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

(c) The costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k)A Financial instruments (accounting policies applied from 1 January 2018)

For the year ended 31 December 2018, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (including contract costs and financial guarantee contracts) and 3) general hedge accounting.

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

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group only has the following type of debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows and the cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k)A Financial instruments (accounting policies applied from 1 January 2018) (continued)

(i) Financial assets (continued)

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables, contract costs, financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract costs using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k)A Financial instruments (accounting policies applied from 1 January 2018) (continued)

(ii) Impairment loss on financial assets (continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 30 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

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

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k)A Financial instruments (accounting policies applied from 1 January 2018) (continued)

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in 4(j); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k)B Financial instruments (accounting policies applied until 31 December 2017)

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

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

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

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k)B Financial instruments (accounting policies applied until 31 December 2017) (continued)

(ii) Impairment loss on financial assets (continued)

For Loans and receivables investments

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset

Available-for-sale investments

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

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k)B Financial instruments (accounting policies applied until 31 December 2017) (continued)

(iii) Financial liabilities (continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

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

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k)B Financial instruments (accounting policies applied until 31 December 2017) (continued)

(vii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

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

(l) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m)A Revenue recognition (accounting policies applied from 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below:

(i) Sales of properties

Revenues are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or

- creates and enhances an asset that the customer controls as the Group performs; or

- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

For property development and sales contract for which the control of the property is transferred at a point in time and there is no enforceable right to payment from the customers for performance completed to date, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

In determing the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m)A Revenue recognition (accounting policies applied from 1 January 2018) (continued)

(ii) Property investment

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Property management

Under HKFRS 15, property management service income derived from the provision of property management services is recognised when the relevant services are rendered and the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. The Group bills a fixed amount for each month of service provided and recognises as revenue in the amount to which the Group has a right to invoice and corresponds directly with the value of performance completed.

(iv) Commercial operation

In the Group's youth communities development projects that also serve the living needs of home buyers, the Group engages in commercial operations covering currently co-work places and medical care in a hospital being built that will be extended in entertainment and education. Revenue from these operations is accounted for on work places rented on a straight-line basis over the terms of the relevant leases and income earned from contractors servicing to the co-workplaces workers when the relevant services are rendered and the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.

(v) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(m)B Revenue recognition (accounting policies applied until 31 December 2017)

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided, net of discounts and sales related taxes as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are presented as current liabilities in the statement of financial position.

(ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Property management service income is recognised when services are provided.

(iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

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

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of the group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution pension plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

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

(q) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Shares held for share award scheme

Where the shares of the Company are acquired under the Share Award Scheme, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" and deducted from total equity.

When the awarded shares are transferred to the awardees upon vesting, the related weighted average cost of the awarded shares vested are credited to "Shares held for Share Award Scheme", and the related employment costs of the awarded shares vested are debited to the employee share-based compensation reserve. The difference between the related weighted average cost and the related employment costs of the awarded is transferred to retained profits.

Where the Shares held for Share Award Scheme are revoked and the revoked shares are disposed of, the related gain or loss is transferred to retained profits, and no gain or loss is recognized in the consolidated statement of profit or loss and other comprehensive income.

Where the cash or non-cash dividend distribution is declared in respect of the shares held for Share Award Scheme, the cash or fair value of the non-cash dividend is transferred to retained profits, and no gain or loss is recognized in the consolidated statement of profit or loss and other comprehensive income.

(s) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment under cost model;

- investment in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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 of economic benefits is remote. Possible obligations, the existence of which 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 of economic benefits is remote.

(u) Leasing

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

The Group as lessor

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

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(v) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

(iii) Both entities are joint ventures of the same third party.

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of 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 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 group's parent.

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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows:

(a) Impairment of non-financial assets other than goodwill

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Income taxes and deferred taxes

The Group is subject to taxation in the PRC and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

(c) Land appreciation taxes

PRC land appreciation tax ("**LAT**") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including land use rights, borrowing costs and all property development expenditures.

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in profit or loss. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with the relevant tax authorities in respect of certain property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

(d) Provision for write-down in value of properties under development and properties held for sale

Management of the Group reviews the development budget and the estimation of net realisable value of the properties at the end of each reporting period, and makes provision for write-down in value, if any. These estimates are based on management's monitoring of the development progress, the current market conditions which may affect the cost to complete and/or the selling price, and the historical experience of selling the properties of similar nature. It could change as a result of changes in market conditions or internal factors of the Group. Such changes will have impact on the carrying amounts of the properties and the provision for write-down in value in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

(e) Prepayments/Deposits for proposed projects for sale

Management of the Group assesses the carrying amounts of prepayments/deposits for proposed projects for sale according to their recoverable amounts based on the realisability of these property development projects, taking into account estimated net sales values based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

(g) Impairment of financial assets measured at amortised cost

Management estimates the amount of loss allowance for ECL on financial assets that are measured at amortised cost based on the credit risk of the respective financial asset. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the respective financial asset. The assessment of the credit risk of the respective financial asset involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

(h) Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties held by the Group in Hong Kong and the PRC are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties held by the Group in Hong Kong as those investment properties in Hong Kong are not subject to any income taxes on change to the fair value of the investment properties. However, for those investment properties in the PRC, the deferred taxes on change in fair value of investment properties are recognised taking into account LAT and enterprise income tax payable upon sales of those investment properties in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(h) Deferred taxation on investment properties (continued)

Critical judgments in applying accounting policies are as follows:

(a) Acquisition of projects

During the year ended 31 December 2018 and 2017, the Group had several acquisitions of projects. The management makes judgement on whether the Group has controls over the investees and the rights are substantive in accordance with HKFRS10. The Group consolidated the investees in the consolidated financial statements if control is existed. The Group classified the amounts paid as deposits if the Group did not obtain the control.

(b) Control through contractual arrangement

Notwithstanding the lack of equity ownership in 雲南安化房地產開發有限責任公司 (Yunnan Anhua Property Development Company Limited*) ("Yunnan Anhua"), under the cooperative agreements entered into by the cooperative partner, an independent third party, of the project during 2018, the Group is able to control, recognise and receive the economic benefits of the business of Yunnan Anhua on the grounds that the Group (1) shall have all requisite power and unrestricted rights, acting as a principal, to control and manage all aspects, at its sole decision and its own benefit, over Yunnan Anhua by virtue of the power of attorney; (2) shall have right to share profits of Yunnan Anhua; and (3) shall be obliged to make financial support to the project company. In view of the foregoing reasons, the Group has determined that it has the practical ability to unilaterally direct the relevant activities of Yunnan Anhua and receive significant benefits of a scaled service fee and residual profits distributed up to 50% of distributable profits derived from Yunnan Anhua, and therefore has consolidated Yunnan Anhua as a wholly-owned subsidiary.

During the year ended 31 December 2018, the Group contributed RMB150,000,000 to Yunnan Anhua as initial contribution and has provided RMB180,000,000 for profit guarantee in Yunnan Anhua to the shareholder of Yunnan Anhua. The directors considered that the possible obligation from the Group to provide the profit guarantee in Yunnan Anhua is low. Hence, no financial liability is recognsed as at 31 December 2018.

* *English name is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group is operating in four principal operating divisions, i.e. property development, property investment, property management services and commercial operations in youth community projects. As management of the Group considers that nearly all consolidated revenue are attributable to the markets in the PRC and consolidated non-current/current assets are substantially located in the PRC, no geographical information is presented. The Group's reportable segments are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Property management	–	Provision of property management services
Commercial operations	–	Provision of services in youth community development projects

The provision of services in youth community development projects namely as "commercial operations" which do not meet any of the quantitative threshold under HKFRS 8, and is considered as individual reporting segment and separately disclosed as the Chief Operating Decision Maker ("**CODM**"). This segment information is useful to users of the financial statements as the nature of services in youth community development projects is distinct to other reporting segments.

The CODM monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses directly incurred by those segments. In addition to the segment performance in terms of segment results, management also provides other segment information concerning depreciation and amortisation, additions to properties held for/under development and capital expenditure.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of short-term investments, cash and bank balances, unallocated bank and other borrowings, derivative financial asset/liabilities and taxes. Investment properties are included in segment assets but the related fair value changes in investment properties are excluded from segment results because the Group's senior executive management considers that they are not generated from operating activities.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT REPORTING (continued)

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance in the consolidated financial statements is set out below:

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Commercial operation *RMB'000*	Total *RMB'000*
Year ended 31 December 2018					
Segment revenue					
Reportable segment revenue	6,122,384	27,965	61,180	8,385	6,219,914
Elimination of intra-segment revenue	–	(8,375)	(19,776)	–	(28,151)
Consolidated revenue from external customers	6,122,384	19,590	41,404	8,385	6,191,763
Timing of revenue recognition					
At a point in time	6,122,384	–	–	–	6,122,384
Transferred over time	–	–	41,404	–	41,404
Revenue from other sources	–	19,590	–	8,385	27,975
Total	6,122,384	19,590	41,404	8,385	6,191,763
Segment results	1,461,332	7,479	(19,528)	(2,791)	1,446,492
Reconciliation:					
Unallocated corporate net expenses					(89,658)
					1,356,834
Fair value changes in investment properties	–	66,405	–	–	66,405
Gain on properties valuation	–	203,297	–	–	203,297
Impairment loss on trade and other receivables					(5,721)
Impairment loss on loan to a non-controlling shareholder of a subsidiary					(524)
Impairment loss on goodwill	(13,554)	–	–	–	(13,554)
Gain from bargain purchase					81,214
Share of loss of joint venture					(8,101)
Fair value changes in derivative financial asset/liabilities					(1,476)
Gain on early repayment of unsecured bonds					1,979
Finance costs					(53,920)
Finance income					17,669
Consolidated profit before income tax					1,644,102

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT REPORTING (continued)

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Commercial operation *RMB'000*	Total *RMB'000*
Other segment information:					
Depreciation and amortisation	(2,103)	(481)	(1,836)	(952)	(5,372)
Additions to properties under development	2,510,449	–	–	–	2,510,449
Capital expenditure	1,337	–	561	15,391	17,289
As at 31 December 2018					
Assets and liabilities					
Assets					
Reportable segment assets	14,030,468	3,784,592	47,941	425,585	18,288,586
Reconciliation:					
Interest in a joint venture					15,899
Derivative financial assets					60,388
Financial asset at fair value through profit or loss					10,000
Deferred tax assets					25,649
Cash and cash equivalents					2,410,063
Unallocated restricted and pledged deposits					45,410
Unallocated corporate assets					
– Leasehold land and building					221,398
– Other corporate assets					159,596
Consolidated total assets					21,236,989
Liabilities					
Reportable segment liabilities	11,544,400	59,487	26,786	90,494	11,721,167
Reconciliation:					
Consideration payable					50,000
Income tax payable					251,998
Amount due to a joint venture					55,817
Deferred tax liabilities					594,856
Derivative financial liabilities					10,895
Unallocated bank and other borrowings					5,237,847
Unallocated corporate liabilities					10,850
Consolidated total liabilities					17,933,430

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT REPORTING (continued)

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
Year ended 31 December 2017				
Segment revenue				
Reportable segment revenue	4,042,763	25,504	42,146	4,110,413
Elimination of intra-segment revenue	–	(7,895)	(22,004)	(29,899)
Consolidated revenue from external customers	4,042,763	17,609	20,142	4,080,514
Segment results	655,580	6,767	(23,332)	639,015
Reconciliation:				
Unallocated corporate net expenses				17,380
				656,395
Fair value changes in investment properties	–	35,701	–	35,701
Gain on properties valuation	–	353,351	–	353,351
Loss on early repayment of term loans				(23,418)
Fair value changes in derivative financial asset/liabilities				13,080
Finance costs				(33,088)
Finance income				36,483
Consolidated profit before income tax				1,038,504
Other segment information:				
Depreciation and amortisation	(1,786)	(768)	(1,777)	(4,331)
Additions to properties held for/under development	2,505,692	–	–	2,505,692
Capital expenditure	3,476	–	340	3,816

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT REPORTING (continued)

	Property development *RMB'000*	Property investment *RMB'000*	Property management *RMB'000*	Total *RMB'000*
As at 31 December 2017				
Assets and liabilities				
Assets				
Reportable segment assets	10,427,908	1,850,264	40,556	12,318,728
Reconciliation:				
Derivative financial assets				46,144
Available-for-sale investment				10,000
Short-term investments				100,000
Deferred tax assets				18,142
Cash and cash equivalents				2,983,799
Unallocated restricted and pledged deposits				456,511
Unallocated corporate assets				
– Leasehold land and building				190,409
– Other corporate assets				128,721
Consolidated total assets				16,252,454
Liabilities				
Reportable segment liabilities	10,913,563	64,145	19,434	10,997,142
Reconciliation:				
Income tax payable				137,192
Deferred tax liabilities				253,388
Derivative financial liabilities				12,333
Unallocated bank and other borrowings				2,463,795
Unallocated corporate liabilities				9,977
Consolidated total liabilities				13,873,827

Information about major customers

None of the customers of the Group contributed more than 10% of the Group's revenue for the year ended 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE

Revenue represents the amounts arising on sales of properties, rental income from the operating leases of investment properties, provision of property management services and income received from commercial operations in youth community projects. The amounts of each significant category of revenue recognised during the year are as follows:

	2018 *RMB'000*	2017 *RMB'000*
Sale of properties	**6,122,384**	4,042,763
Rental income	**19,590**	17,609
Property management services	**41,404**	20,142
Commercial operations	**8,385**	–
	6,191,763	4,080,514

8. FINANCE COSTS AND INCOME

	2018 *RMB'000*	2017 *RMB'000*
Finance costs:		
Interest on bank and other borrowings	**543,841**	314,888
Less: Amount capitalised as properties under development	**(498,415)**	(281,822)
	45,426	33,066
Other borrowing costs	**15,214**	17,725
Less: Amount capitalised as properties under development	**(6,720)**	(17,703)
	8,494	22
Finance costs charged to profit or loss	**53,920**	33,088
Finance income:		
Bank interest income	**11,230**	24,953
Interest income on short-term investments	**3,873**	8,884
Interest income on loan to a non-controlling shareholder of a subsidiary	**2,566**	2,646
Finance income credited to profit or loss	**17,669**	36,483

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 9.1% (2017: 8.4%), which is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. PROFIT BEFORE INCOME TAX

Profit before income tax for the year has been arrived at after charging/(crediting):

	Notes	2018 RMB'000	2017 RMB'000
Cost of properties sold		**4,283,215**	3,054,029
Write-down of properties under development/properties held for sale		**–**	131,299
Cost of inventories recognised in profit or loss		**4,283,215**	3,185,328
Staff costs, including directors' emoluments	*10*	**203,200**	132,701
Auditor's remuneration			
– current year		**2,131**	1,206
– non-audit services		**1,178**	–
Depreciation of property, plant and equipment	*16*	**18,949**	13,460
Less: Amount capitalised as properties under development	*22*	**(78)**	(127)
Depreciation charged to profit or loss		**18,871**	13,333
Amortisation of leasehold land	*16*	**3,407**	3,407
Depreciation and amortisation charged to profit or loss		**22,278**	16,740
Minimum lease payments under operating lease in respect of:			
– rented other premises		**2,038**	1,136
Unrealised exchange losses/(gains)		**74,171**	(111,909)
Direct operating expenses arising from investment properties that generated rental income		**4,036**	2,630
Direct operating expenses arising from investment properties that did not generate rental income		**235**	48

10. STAFF COSTS

	2018 RMB'000	2017 RMB'000
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	**159,640**	105,444
Bonuses	**66,200**	62,281
Equity-settled share-based payment expenses	**5,709**	6,185
Contributions to defined contribution pension plans	**8,552**	6,165
	240,101	180,075
Less: Amount capitalised as properties under development	**(36,901)**	(47,374)
Staff costs charged to profit or loss	**203,200**	132,701

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) (the Ordinance) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (the Regulation) are as follows:

	Fees *RMB'000*	Salaries and other benefits *RMB'000* *(note (a))*	Bonuses *RMB'000* *(note (b))*	Equity-settled share-based payment expenses *RMB'000* *(note (c))*	Contributions to defined contribution pension plan *RMB'000*	Total *RMB'000*
2018						
Executive directors						
YU Pan	–	2,138	2,552	–	15	4,705
WEN Xiaobing	101	1,936	2,502	561	85	5,185
WONG Lok	–	223	–	–	11	234
WANG Chenghua (appointed on 22 October 2018)	–	1,563	–	–	12	1,575
Non-executive director						
LIU Juan (appointed on 22 October 2018)	–	–	–	–	–	–
LI Weijing (resigned on 22 October 2018)	–	–	–	–	–	–
Independent non-executive directors						
CHOY Shu Kwan	202	–	–	63	–	265
CHENG Wing Keung, Raymond	202	–	–	63	–	265
CHUNG Lai Fong	202	–	–	63	–	265
	707	5,860	5,054	750	123	12,494
2017						
Executive directors						
YU Pan	–	2,228	691	–	16	2,935
WEN Xiaobing	104	1,747	913	809	73	3,646
WONG Lok	–	231	–	–	11	242
JIANG Jing (resigned on 25 April 2017)	35	238	–	–	23	296
Non-executive director						
LI Weijing (appointed on 7 August 2017)	–	–	–	–	–	–
ZHONG Guoxing (resigned on 20 July 2017)	–	–	–	–	–	–
Independent non-executive directors						
CHOY Shu Kwan	209	–	–	52	–	261
CHENG Wing Keung, Raymond	209	–	–	52	–	261
CHUNG Lai Fong	209	–	–	52	–	261
	766	4,444	1,604	965	123	7,902

11. DIRECTORS' EMOLUMENTS (continued)

Comparative information has been prepared with reference to the provisions in the Ordinance and the Regulation. Certain information has been restated due to the requirements in the Ordinance and the Regulation are not the same as the Hong Kong Companies Ordinance, Cap.32.

Notes:

(a) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind.

(b) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the Remuneration Committee of the Company.

(c) The Group has to estimate the expected percentage of grantees that will stay within the Group at the end of vesting periods (the "Expected Retention Rate") of the shares option scheme in order to determine the amount of share-based compensation expenses charged to profit or loss. As at 31 December 2018, the Expected Retention Rate was assessed to be 100% (2017: 100%).

(d) Mr. WEN Xiaobing acted as chief executive of Guangzhou head office and his emoluments for the year are not included in note 12 below.

(e) Equity-settled share-based payment represents the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is estimated according to the accounting policies for share-based payments as set out in Note 38 to the financial statements. Further details of the options granted are set out in Note 38.

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

12. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group during the year, two (2017: one) are Director whose emoluments is included in note 11 above. The emoluments of the remaining three (2017: four) are as follows:

	2018	2017
	RMB'000	*RMB'000*
Basic salaries and other benefits	**5,320**	6,306
Bonuses	**6,502**	9,610
Equity-settled share-based payment expenses	**1,347**	2,137
Contributions to defined contribution pension plans	**165**	233
	13,334	18,286

Their emoluments are within the following bands:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. FIVE HIGHEST PAID INDIVIDUALS (continued)

	Number of individuals	
	2018	2017
RMB3,067,001 to RMB3,505,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**1**	1
RMB3,943,001 to RMB4,381,000 (equivalent to HK$4,500,001 to HK$5,000,000)	**1**	–
RMB4,381,001 to RMB4,819,000 (equivalent to HK$5,000,001 to HK$5,500,000)	**–**	1
RMB5,257,001 to RMB5,695,000 (equivalent to HK$6,000,001 to HK$6,500,000)	**–**	2
RMB5,695,001 to RMB6,133,000 (equivalent to HK$6,500,001 to HK$7,000,000)	**1**	–

Their emoluments paid or payable to members of senior management (excluding the directors as disclosed in note 11) are within the following bands:

	Number of senior management	
	2018	2017
RMBNil to RMB438,000 (equivalent to HK$Nil to HK$500,000)	**1**	–
RMB438,001 to RMB876,000 (equivalent to HK$500,001 to HK$1,000,000)	**1**	–
RMB1,314,001 to RMB1,752,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**–**	2
RMB3,067,001 to RMB3,505,000 (equivalent to HK$3,500,001 to HK$4,000,000)	**3**	2
RMB3,943,001 to RMB4,381,000 (equivalent to HK$4,500,001 to HK$5,000,000)	**1**	–
RMB4,381,001 to RMB4,819,000 (equivalent to HK$5,000,001 to HK$5,500,000)	**–**	1
RMB5,695,001 to RMB6,133,000 (equivalent to HK$6,500,001 to HK$7,000,000)	**1**	1

13. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

	2018 RMB'000	2017 RMB'000
Current tax		
Hong Kong profits tax	–	–
PRC corporate tax		
– current year	**453,862**	198,341
PRC LAT		
– current year	**373,129**	170,814
	826,991	369,155
Deferred tax		
– current year	**(3,645)**	122,077
Total income tax expenses	**823,346**	491,232

No provision for Hong Kong profits tax has been made for the year ended 31 December 2018 (2017: Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2017: 16.5%) for the year.

Enterprise income tax arising from other regions of the PRC is calculated at 25% (2017: 25%) of the estimated assessable profits and withholding tax on dividend declared by a PRC subsidiary.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss as follows:

	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**1,644,102**	1,038,504
Tax calculated at the applicable income tax rate of 25% (2017: 25%)	**411,026**	259,626
Effect of different tax rates of entities operating in other jurisdictions	**(29,197)**	10,309
Tax effect of expenses not deductible for tax purposes	**134,803**	107,536
Tax effect of revenue not subject to tax	**(113,337)**	(10,214)
Tax effect of tax losses not recognised	**14,598**	(41,857)
Tax effect of LAT	**372,773**	104,233
Tax effect on withholding tax arising on undistributed profits of the PRC subsidiaries	**16,475**	39,975
Under-provision in respect of prior years	**(1,515)**	3,650
Tax effect of other temporary differences not recognised	**17,720**	18,455
Others	**–**	(481)
Income tax expense	**823,346**	491,232

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. EARNINGS PER SHARE

The calculation of basic earnings per share amounts for the years ended 31 December 2018 and 2017 is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue and participating equity instruments resulting to new shares issued due to the exercises of share options during the years. For comparison purpose, the number of ordinary shares for 2017 takes into account the subdivision of shares happened on 22 October 2018, details of which are stated in "Share Subdivision" in the succeeding section, assuming that the subdivision takes place at the beginning of the year 2017.

The calculation of the diluted earnings per share amounts for the years ended 31 December 2018 and 2017 is based on the profit for the year attributable to equity holders of the Company and the weighted average number of ordinary shares after adjustment for the effect of the exercise of the Company's outstanding share options under the 2005 Scheme and 2015 Scheme, and assuming the exercise is made at no consideration at the beginning of the periods.

	2018	2017
	RMB'000	*RMB'000*
Profit for the purposes of calculation of basic and diluted earnings per share	**751,315**	550,460
	Number of shares	
	'000	*'000*
		(Restated)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**7,892,360**	7,849,606
Effect of dilutive potential ordinary shares from share options (2005 Scheme) *(Note 38(a))*	**52,373**	29,731
Effect of dilutive potential ordinary shares from share options (2015 Scheme) *(Note 38(b))*	**216,482**	54,774
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**8,161,215**	7,934,111
		(Restated)
Basic	**RMB0.095**	RMB0.070
Diluted	**RMB0.092**	RMB0.069

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Final dividend proposed after the end of the year of HK$0.023 (approximately RMB0.020) per ordinary share (2017: HK$0.013 approximately RMB0.010)	**160,000**	78,543

At the meeting held on 22 March 2019, the directors proposed a final dividend of HK$0.023 (approximately RMB0.020) (2017: HK$0.013 approximately RMB0.010) per ordinary share of the Company for the year ended 31 December 2018. This proposed final dividend, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting, is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2018, but will be reflected as an appropriation for the year ending 31 December 2019.

For comparison purpose, dividend per share for 2017 is based on the number of issued shares then existing assuming the subdivision of shares took place on the date when the 2017 dividend was proposed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost					
At 1 January 2017	279,082	13,315	9,582	–	301,979
Additions	–	6,759	2,514	–	9,273
Written off/disposals	–	(33)	–	–	(33)
Exchange differences	(5,504)	(292)	(251)	–	(6,047)
At 31 December 2017 and at 1 January 2018	**273,578**	**19,749**	**11,845**	**–**	**305,172**
Additions *(note)*	**–**	**2,023**	**1,199**	**15,283**	**18,505**
Acquired through acquisition of subsidiaries *(note)*	**11,755**	**2,458**	**1,362**	**397,244**	**412,819**
Transfer from investment properties *(Note 17)*	**42,409**	**–**	**–**	**–**	**42,409**
Written off/disposals	**–**	**(21)**	**(604)**	**–**	**(625)**
Exchange differences	**5,830**	**224**	**185**	**–**	**6,239**
At 31 December 2018	**333,572**	**24,433**	**13,987**	**412,527**	**784,519**
Accumulated depreciation					
At 1 January 2017	36,088	8,205	6,296	–	50,589
Depreciation for the year	9,458	2,476	1,526	–	13,460
Amortisation for the year	3,407	–	–	–	3,407
Written off/disposals	–	(33)	–	–	(33)
Exchange differences	(1,403)	(197)	(148)	–	(1,748)
At 31 December 2017 and at 1 January 2018	**47,550**	**10,451**	**7,674**	**–**	**65,675**
Acquired through acquisition of a subsidiary *(note)*	**86**	**954**	**410**	**–**	**1,450**
Depreciation for the year	**13,910**	**3,461**	**1,578**	**–**	**18,949**
Amortisation for the year	**3,407**	**–**	**–**	**–**	**3,407**
Written off/disposals	**–**	**(21)**	**(604)**	**–**	**(625)**
Exchange differences	**1,526**	**186**	**92**	**–**	**1,804**
At 31 December 2018	**66,479**	**15,031**	**9,150**	**–**	**90,660**
Net book value					
At 31 December 2018	**267,093**	**9,402**	**4,837**	**412,527**	**693,859**
At 31 December 2017	226,028	9,298	4,171	–	239,497

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Note:

The Group acquired 70% equity interest in a project company which had land and construction-in progress at the date of acquisition on 31 August 2018. The net assets of the project company at the date of acquisition was RMB284,614,000, which mainly comprised of RMB397,244,000 of construction-in-progress and RMB110,467,000 of construction loans payable. The consideration of RMB199,230,000 was determined at 70% of the net assets of the project company. The project company, holding the development right of a hospital located in Nanning, which provides integrated western medical services to the general public living in the district, started the construction in November 2017. Costs of construction of RMB15,283,000 had been incurred from the date of acquisition. The vendor is a subsidiary of 綠景控股股份有限公司, a listed company in the Shenzhen Stock Exchange in which 22.65% shareholding is held by a company beneficially owned by the Company's controlling shareholder, Yu Pan.

Additions of RMB11,755,000, RMB1,430,000 and RMB1,362,000 of leasehold land and building, furniture, fixture and equipment and motor vehicle were acquired respectively through an acquisition of a subsidiary as at 31 March 2018. Details are set out at note 40(c).

17. INVESTMENT PROPERTIES

	Notes	2018 RMB'000	2017 RMB'000
At beginning of year		**1,094,400**	588,370
Additions	*(a)*	**51,690**	–
Acquired through acquisition of a subsidiary *(Note 40(c))*	*(b)*	**1,163,000**	–
Transfer to property, plant and equipment	*(c)*	**(42,409)**	–
Transfer from properties under development *(Note 22)*	*(d)*	**365,211**	–
Transfer from properties held for sale *(Note 23)*	*(e)*	**–**	125,649
Gain on valuations		**203,297**	353,351
Changes in fair value		**66,405**	35,701
Exchange differences		**5,563**	(8,671)
At end of year		**2,907,157**	1,094,400

Details of assessment of the fair value are set out in Note 24.

Notes

(a) During the year ended 31 December 2018, the Group has acquired eight units of commercial office in Guangzhou with fair value of RMB51,690,000 from an independent third party for earning rental income.

(b) The investment properties consist of land and properties under construction located in the PRC. Under the requirement of one of the land transfer contracts for development in phase 2 of the land use right, the project company has to retain 70% G.F.A. of the developed commercial properties, representing an aggregate G.F.A. of 248,800 sq.m.. In the opinion of the directors of the Company, it will be developed into serviced apartments which will be held for long term investment purpose pursuant to the aforesaid requirement of the land transfer contract.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENT PROPERTIES (continued)

Notes (continued)

(c) At the date of transfer, 1 January 2018, a Hong Kong office building with fair value of RMB42,409,000 which previously held for earning rental income was occupied by the Group as offices and hence was transferred from investment properties to property, plant and equipment. The directors of the Company considered that the fair value of the office building approximated the carrying value as at 1 January 2018.

(d) In June 2018, a tower in Zhoutouzui Project, consisting of GFA of 10,500 sq. m., was built up and contracted to a renounced hotel operator for the operation of serviced apartments under a tenancy agreement for a term of 20 years commencing 30 March 2019 or the date of final inspection of completion, whichever is the later, at a fixed monthly rental of RMB1,840,000 for the first rental period of 25 months and accelerated up to RMB2,719,000 in the last rental period. In the opinion of the directors of the Company, the lease agreement with the hotel operator is classified as operating lease. As at 31 December 2018, the construction works have been completed pending the final inspection by government authorities. At the date of transfer, 30 June 2018, carrying amount of RMB316,703,000 of the building was revalued at RMB520,000,000 by Cushman & Wakefield. As a result, the Group recognised RMB203,297,000 of fair value gain in the profit or loss for the year ended 31 December 2018.

Additional development costs of RMB48,508,000 was incurred from the investment properties under construction for the year ended 31 December 2018.

(e) In December 2017, 800 units of car park in Zhoutouzui Project was built up and contracted to a management service provider for the operation of car park under a tenancy agreement for a term of 5 years commencing 1 December 2017 at a fixed monthly rental. At the date of transfer, 31 December 2017, carrying amount of RMB125,649,000 of the car parks was revalued at RMB479,000,000 by Cushman & Wakefield. As a result, the Group recognised RMB353,351,000 for fair value gain in the profit or loss for the year ended 31 December 2017.

18. GOODWILL

	2018	2017
	RMB'000	*RMB'000*
Cost		
At beginning of year	**68,664**	68,664
At end of year	**68,664**	68,664
Accumulated impairment loss		
At beginning of year	**55,110**	55,110
Impairment loss recognised during the year	**13,554**	–
At end of year	**68,664**	55,110
Net book value		
At end of year	**–**	13,554

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For the year ended 31 December 2018

18. GOODWILL (continued)

Goodwill acquired through business combinations has been allocated to the following CGU, namely property development, for impairment testing:

Project	Attributable CGU	2018 *RMB'000*	2017 *RMB'000*
Zhoutouzui Project	Property development *(Note)*	–	13,554

Note: Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition in 2007. The carrying amount of property development costs in relation to the properties being under construction in Zhoutouzui Project is included in properties held for sale (as disclosed in note 23).

Impairment test for goodwill

The goodwill relates to the CGU within the operational segment of property development. The recoverable amount of the CGU is determined using value-in-use calculation. This calculation uses cash flow projection based on financial budget of this CGU which is approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of this CGU.

The remaining GFA unsold on the apartments is approximately 17,000 sq.m. in Zhoutouzui Project. In light of the current stage of the project, the Directors perceive the cashflow generated from the project in the coming years will not be as significant as that in the previous years. The Directors performed an impairment test for the goodwill and concluded that the CGU of property development in relation to the Zhoutouzui Project demonstrates insufficient cashflow projection that justifies the carrying value of the goodwill. Hence, the management consider impairment loss of goodwill of RMB13,554,000 is provided for the year ended 31 December 2018 (2017: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENT

	2018	2017
	RMB'000	*RMB'000*
Unlisted debt investment at fair value through profit or loss	**10,000**	–
Available-for-sale investment	**–**	10,000

This is an investment into a fund incorporated in the PRC managed by 深圳前海易通基金管理有限公司 (Shenzhen Qianhai Yitong Fund Management Company Limited*) (“**Qianhai Yitong**”), which is wholly-owned by the Company's controlling shareholder, Mr. Yu Pun. As at 31 December 2018 and 2017, the cost of the investment was RMB10,000,000, and the Group determined the fair value of the investment on the basis of the report provided by the Qianhai Yitong. Qianhai Yitong executes unified operation and investment management, while the Group shares investment risks as well as potential income in proportion to their contributions. The directors of the Company considered that the fair value of the debt investment approximated the carrying value as at 31 December 2018 and 2017.

* *English name is for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. INTEREST IN A JOINT VENTURE

	2018 *RMB'000*	2017 *RMB'000*
Share of net assets	**15,899**	–

For the year ended 31 December 2018, the Group has a 40% (2017: nil) interest in a material joint venture, 廣西眾擎易舉投資有限公司 (Guangxi Zhongqing Yiju Investment Limited*) ("**Guangxi Zhongqing**"), a newly established company in the PRC. The primary activity of the joint venture is property development, which is in line with the Group's strategy to expand its business in the Nanning region.

The contractual arrangement provides the Group with only the rights to the net assets of the joint arrangement, with the rights to the assets and obligation for the liabilities of the joint arrangement resting with Guangxi Zhongqing. Under HKFRS 11 this joint arrangement is classified as a joint venture and has been included in the consolidated financial statements using the equity method.

Summarised financial information of the joint venture, adjusted for any differences in accounting policies, is presented below:

As at 31 December 2018	***RMB'000***
Current assets	**2,423,260**
Non-current assets	**153**
Current liabilities	**1,203,638**
Non-current liabilities	**1,180,028**
Net assets	**39,747**
Included in the above amounts are:	
Cash and cash equivalents	**110,074**
Current financial liabilities (excluding trade and other payable)	**36,916**
Non-current financial liabilities (excluding other payable and provision)	**1,180,028**

For the year ended 31 December 2018	***RMB'000***
Revenues	–
Profit/(loss)	**(20,253)**
Total comprehensive income	**(20,253)**
Included in the above amounts are:	
Depreciation and amortisation	**14**
Interest income	**414**
Interest expense	–
Income tax expense/(income)	–

The Group's share of Guangxi Zhongqing's capital commitments in relation to property construction and development costs are RMB24,936,000 as at 31 December 2018. Guangxi Zhongqing had no contingent liabilities as at 31 December 2018.

* *English name is for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. JOINT ARRANGEMENT

廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Company Limited*) (“**GZ Yucheng**”), a sino-foreign cooperative company with limited liabilities established in the PRC by Guangzhou Zhoutouzui Development Limited (“**GZ Zhoutouzui**”), a wholly-owned indirect subsidiary of the Company, and is accounted for as a joint operation in the Group’s financial statements since 2006. The Group’s accounts for its share of assets, liabilities and profit or loss in relation to the joint operation in accordance with the policy are set out in note 4(c). Details of GZ Yucheng are as follows:

Place and date of establishment	Registered capital	Paid-up capital	Attributable equity interest indirectly held by the Company 2018	2017	Principal activity
PRC,31 March 2003	US$100,000,000	US$100,000,000 (approximately RMB656,641,000)	100%	100%	Property development in the PRC

Under the terms of the agreement entered into by the parties, (i) GZ Zhoutouzui is obligated for the investment of 100% of the capital of and provided financial support to GZ Yucheng; and (ii) another party, 廣州港集團有限公司 (Guangzhou Port Group Co., Limited*) (“**Port Authority**”), contributed a land for property development with developable GFA of approximately 320,000sq.m., is entitled to 28% of the total gross floor area of the project upon completion of the development (agreed to be the entire block of Tower A4 and certain residential units in Tower A5 as specified under the contractual terms) and after then, Port Authority will not be entitled to any profit or loss generated by GZ Yucheng; and (iii) GZ Zhoutouzui is entitled to the remaining 72% of the total gross floor area of the project upon completion of the proposed development and the entire profit or loss to be generated or incurred by GZ Yucheng. GZ Zhoutouzui is also entitled to all assets other than the identified 28% properties to be allocated to Port Authority, and obliged to bear all the liabilities of GZ Yucheng under the arrangement.

In December 2017, Port Authority acknowledged the transfer of the rights of use of the property units in Tower A4 and discussions are currently being held in the delegating GZ Yucheng to sell the residential units in Tower A5.

* *English name for identification purpose only*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. PROPERTIES HELD FOR/UNDER DEVELOPMENT

Properties held for/under development in the PRC are as follows:

	2018	2017
	RMB'000	*RMB'000*
Land use rights *(Note)*	**3,869,075**	1,734,123
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	**281,893**	170,403
Construction costs	**2,019,421**	1,770,152
Others	**1,383,938**	392,923
	7,554,327	4,067,601
Less: Accumulated write-down in value	**–**	(27,151)
	7,554,327	4,040,450
Representing:		
Properties held for development	**–**	488,072
Properties under development	**7,554,327**	3,552,378
	7,554,327	4,040,450

Note:

Land use rights comprise cost of acquiring rights to use of lands located in the PRC for property development.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. PROPERTIES HELD FOR/UNDER DEVELOPMENT (continued)

The following table reconciles the movement of the carrying amount of properties held for/under development during the year:

	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**4,040,450**	8,132,187
Additions		
– Capitalisation of depreciation of property, plant and equipment	**78**	127
– Capitalisation of finance costs	**505,135**	295,539
– Land and other development costs	**2,852,410**	2,500,590
– Acquisition of a subsidiary	**2,624,800**	–
	5,982,423	2,796,256
Completed properties transferred to properties held for sale	**(2,103,335)**	(6,860,842)
Completed properties transferred to investment properties	**(316,703)**	–
Properties under development transferred to investment properties	**(48,508)**	–
Write down of properties under development	–	(27,151)
At end of year	**7,554,327**	4,040,450

23. PROPERTIES HELD FOR SALE

	2018	2017
	RMB'000	*RMB'000*
Completed properties held for sale	**4,144,040**	3,984,040
Less: Transfer to investments properties	–	(125,649)
Less: Write-down of properties held for sale *(Note)*	–	(104,148)
	4,144,040	3,754,243

All completed properties held for sale as at 31 December 2018 were located in the PRC.

Note:

Write down of the carrying values of RMB104,148,000 for the year ended 31 December 2017 in respect of properties held for sale in Nanning Skyfame Garden Project to pre-agreed prices as contracted with local government for properties purchased by government for the resettlement of original occupants of the project site and residents in shanty dwellings around the region.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. ANALYSIS OF PROPERTIES

(a) The analysis of the net book values of properties held for sale, leasehold land and building for self-use and fair value of investment properties is as follows:

	2018	2017
	RMB'000	*RMB'000*
Land lease in the PRC and Hong Kong		
– Investment properties	**2,907,157**	1,094,400
– Leasehold land and building	**267,093**	226,028
– Properties held for sale	**4,144,040**	3,754,243
	7,318,290	5,074,671

(b) The Group's investment properties were revalued at transfer dates, 31 December 2018 and 31 December 2017. The valuations were carried out by Cushman & Wakefield International Property Advisers (Guangzhou) Co., Ltd. for properties in the PRC and CBRE Limited (2017: RHL Appraisal Limited) for properties in Hong Kong, independent valuers who hold recognised and relevant professional qualifications and have relevant experience in the locations and category of the properties being valued. The Group's management has discussion with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(c) The Group's investment properties with fair value and leasehold land and building, property held for sale and property under development with carrying amounts as disclosed in note 45 are pledged to secure bank borrowings of the Group, as disclosed in note 33(a), at the end of the reporting period.

(d) For the year ended 31 December 2018, the rental income from investment properties amounted to RMB27,975,000 (2017: RMB17,609,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. ANALYSIS OF PROPERTIES (continued)

(e) Fair value

The following table gives information about how the fair values of investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Nature	Location	Fair value as at 31 December RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
2018						
Investment properties in Hong Kong	i) Unit 02, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	46,593	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
	ii) Unit 03, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	49,681				
	iii) Unit 04, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	35,193				
Investment properties in the PRC	i) Retail units on 2/F and 5/F, and room 403 of 4/F, Tianyu Garden Phase 2, situated at 136 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Orovince, the PRC	469,000	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%. (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB427/sq.m./month for the base level.	The higher the capitalisation rate, the lower the fair value. The higher the daily unit rent, the higher the fair value.
	ii) 800 Units of carparks at Skyfame Byland, the north of Machong, West of Hongde Road, south and east of Pearl River, Haizhu District, Guangzhou, Guangdong Province, the PRC.	520,000			(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 1.50%. (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB1,800/lot/month for the base level.	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. ANALYSIS OF PROPERTIES (continued)

(e) Fair value (continued)

Nature	Location	Fair value as at 31 December RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	iii) Tower A at Skyfame Byland, the north of Machong, West of Hongde Road, south and east of Pearl River, Haizhu District, Guangzhou, Guangdong Province, the PRC.	520,000			(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 2.50%. (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB193/sq.m./month for the base level.	
	iv) D3-2/03, Zone D of Danzishi Group, Nanan District, Chongqing, the PRC	1,215,000			(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.00%. (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB57/sq.m./month for the base level.	
	v) Unit 1 to 5, 10/F, Huan Cheng Plaza, Tianhe North road, Tianhe District, Guangzhou, Guangdong, the PRC.	31,895			(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 5.00%.	
	vi) Unit 1 to 3, 14/F, Huan Cheng Plaza, Tianhe North road, Tianhe District, Guangzhou, Guangdong, the PRC.	19,795			(b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB183/sq.m./month for the base level.	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. ANALYSIS OF PROPERTIES (continued)

(e) Fair value (continued)

Nature	Location	Fair value as at 31 December RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
2017						
Investment properties in Hong Kong	i) Unit 02, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	36,855	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property.	N/A	N/A
	ii) Unit 03, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	39,298				
	iii) Unit 04, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	27,838				
	iv) Unit 05, 14th floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	42,409				
Investment properties in the PRC	i) Retail units on 2/F and 5/F, and room 403 of 4/F, Tianyu Garden Phase 2, situated at 136 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Orovince, the PRC	469,000	Level 3	Income capitalization approach The key inputs are: (1) Capitalisation rate; (2) Daily unit rent	(a) Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.75%. (b) Daily unit rent, using direct market comparables and taking into account of time, location and individual factors such as size of property and facilities, of RMB417/sq.m./day for the base level.	The higher the capitalisation rate, the lower the fair value. The higher the daily unit rent, the higher the fair value.
	ii) 800 Units of carparks at Skyfame Byland, the north of Machong, West of Hongde Road, south and east of Pearl River, Haizhu District, Guangzhou, Guangdong Province, the PRC.	479,000				

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. ANALYSIS OF PROPERTIES

(e) Fair value (continued)

The fair value of investment properties in the PRC as at 31 December 2018 and 31 December 2017 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy.

Fair value measurements and valuation processes

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of Directors of the Company.

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2018	2017
	RMB'000	*RMB'000*
Opening balance (level 3 recurring fair value)	**948,000**	456,000
Additions	**51,690**	–
Acquired through business combinations *(Note 40(c))*	**1,163,000**	–
Transfer from properties under development	**365,211**	–
Transfer from properties held for sale	**–**	125,649
Gains: included in other gains	**247,789**	366,351
Closing balance (level 3 recurring fair value)	**2,775,690**	948,000

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25. LOAN TO NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

	2018	2017
	RMB'000	*RMB'000*
Loan to a non-controlling shareholder of a subsidiary	**51,847**	52,900

As at 31 December 2018 and 2017, the balance is unsecured, interest-bearing at floating rate referenced to 110% of the 1-year lending rate as quoted by the People's Bank of China and payable in January, June, July, September and November 2019 respectively. In the opinion of the directors of the Company, ECL on the balance was provided.

The movements of impairment loss of loan to a non-controlling shareholder of a subsidiary of the Group are as follows:

	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**–**	–
Impact of initial application of HKFRS 9 *(note 2(a)(ii)(II))*	**529**	–
Provision of impairment loss during the year	**524**	–
	1,053	–

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26. TRADE AND OTHER RECEIVABLES

	Notes	2018 RMB'000	2017 RMB'000
Current or less than 1 month		**803**	1,370
1 to 3 months		**171,788**	380
More than 3 months but less than 12 months		**21,248**	542
More than 1 year		**2,601**	539
Trade receivables from tenants and property occupants, net of impairment	*(a,b)*	**196,440**	2,831
Receivable from district government for resettlement housing in a project	*(c)*	**52,272**	52,272
Sale proceeds kept by a monitoring governmental authority	*(d)*	**391,453**	195,910
Unpaid up capital to be contributed by a non-controlling shareholder of a subsidiary	*(e)*	**24,900**	38,689
Refundable construction costs		**2,278**	60,697
Tender deposit in development project	*(f)*	**40,800**	20,800
Prepaid construction costs		**187,975**	204,571
Prepaid finance costs		**1,494**	7,638
Prepaid business taxes and surcharges		**443,641**	315,918
Maintenance funds paid on behalf of properties owners	*(g)*	**55,459**	46,616
Other deposits, prepayments and other receivables	*(h)*	**214,792**	254,850
		1,611,504	1,200,792

Notes:

(a) Trade receivable for property sales are due on the dates of delivery of properties but settlements are made by agreements on instalment payments or time allowed for collections. Management fees receivable bear no credit term. To tenants for rent receivables, the Group maintains a policy of credit period of 8 to 30 days. The Group's formal credit policy monitors the Group's exposure to credit risk through regular reviews of receivables and follow-up actions taken on overdue accounts. Evaluations are performed on all customers to whom credits are offered. The Group and the Company recognised impairment loss based on the accounting policy stated in Note 4(k)A(ii) (2017: Note 4(k)B(ii)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

26. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) (i) The analysis of the Group's trade receivables which are past due but not impaired is as follows:

	2018	2017
	RMB'000	*RMB'000*
1 to 3 months past due	**171,788**	380
More than 3 months but less than 12 months past due	**21,248**	542
More than 1 year past due	**2,601**	539
	195,637	1,461

The trade receivables as at 31 December 2018 comprise mainly property sales which are recognized as sales when properties have been handed over to customers, regardless of whether the corresponding sale proceeds have been fully collected.

The Group's trade receivables which are past due but not impaired relate to mainly property sales proceeds in the process of bank mortgage approval, settlements by installments, and rent due by a few tenants. Management perceives no any debt of material amounts bear a default risk.

(ii) The summaries of trade receivables (net of impairment) are as follows:

	2018	2017
	RMB'000	*RMB'000*
Sales of properties	**185,838**	–
Rental income	**2,234**	1,146
Property management services	**8,368**	1,685
	196,440	2,831

(c) The balance is unsecured relates to an outstanding balance of property sales contracted with a district government in Nanning for resettlement houses for occupants of the land lots on which the Nanning Skyfame Garden Project is developed since 2016. These resettlement houses have been built up pending handing over to the government authority during 2019 when the outstanding debt will be settled. No credit loss is expected by the management.

(d) The balance represents pre-sales proceeds of Xuzhou Times City Project held by a governmental authority in Xuzhou. This governmental authority is responsible for the monitoring of the usage of funds which were deposited in a regulated bank account in the name of the government authority when the sales and purchase agreements have been entered into between the Group and the customers and sale proceeds received. The Group has a right to use the pre-sale proceeds kept in the bank account to pay construction costs of the related development project and the pre-sales proceeds will be put for free use by the Group upon completion of the relevant project. The management expects the ECL on this other receivable is insignificant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

26. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(e) Unpaid-up capital is to be made by a minority shareholder of Xuzhou Elegance Garden Project who is entitled to the sharing of 22% profit distributed by the project. Management expects the unpaid-up amount will be made good by profits distributed to shareholders and therefore perceives no credit loss.

(f) Deposits were tendered to governments in respect of two projects respectively for a shanty town remodeling project and a land to be expropriated in Nanning. Management expects the deposits can be used as part of the land costs or refunded if the expropriation of land does not materialise. Hence, no credit loss on the deposits is foreseen.

(g) Maintenance funds were paid for maintenance of properties under development which will be refunded by property buyers upon handing over of properties. No credit loss on the funds paid is expected.

(h) RMB92,424,000 of other miscellaneous deposits and receivables are trade in nature. No credit loss of material amount is expected.

The movements of impairment loss on trade and other receivables of the Group are as follows:

	2018 ***RMB'000***	2017 *RMB'000*
At beginning of year	**1,570**	1,570
Impact of initial application of HKFRS 9 *(note 2(a)(ii)(I))*	**90**	–
Impact of initial application of HKFRS 9 *(note 2(a)(ii)(III))*	**3,026**	–
Provision of impairment of trade receivables during the year	**4,824**	–
Provision of impairment of other receivables during the year	**897**	–
	10,407	1,570

The balances of trade and other receivables as disclosed under category (b) and (h) in the note are neither past due nor impaired. Management considers that the credit risk associated with these receivables is minimal but a general provision for impairment loss is provided for as in the aforesaid.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. PREPAYMENTS/DEPOSITS FOR PROPOSED PROJECTS FOR SALE

The Group has entered into a number of contractual arrangements relating to remodelling certain old districts and other development projects. The balances are progress payments made on acquisition of projects, refundable earnest money or payments made in project acquisitions. These prepayments/deposits would be converted into properties under development upon the completion of the contracts.

	Notes	2018 RMB'000	2017 RMB'000
Prepayment for proposed project	(a)	**191,020**	614,209
Deposit paid for land held for development	(b)	**112,663**	106,193
Deposit paid for proposed projects	(c)	**691,245**	664,867
		994,928	1,385,269

Notes:

(a) As at 31 December 2018, prepayment costs were made for start-off costs on an old district remodeling project in Guangzhou. The management is currently conducting works as customarily required in the preliminary stage of a typical old district remodeling project. In view of the steady progress since project start-off, the management anticipates that the demolishment contract will be entered into by the project company in near future and the district government will put the land for auction with pre-requisite conditions made exclusively to the benefit of the project company.

(b) Deposit was made for a project in Guangzhou with land use right certificate for a development of industrial properties. The management is negotiating with the district government for conversion of the land use right to the development of commercial properties. Negotiations are ongoing and management does not perceive credit loss on the investment costs paid.

(c) Deposits were paid for several proposed projects in Shenzhen, Guangzhou, Xuzhou and Guilin. The grant of land use or redevelopment rights had not yet taken place as of 31 December 2018. However, given the progress of the work and negotiations with the contracting parties, managements does not perceive credit loss on the deposits paid.

28. SHORT-TERM INVESTMENTS

The Group invested in an insurance policy issued by a licensed insurance company on mainland China with investment value amounting to RMB100,000,000 carried interest ranged from 2.6% to 3.6% per annum for the period from 6 September 2017 to 26 April 2018 which was used to secure a back-to-back letter of credit issued by a local bank in PRC to its overseas sub-branch. No such investments were made by the Company as at 31 December 2018.

During the year ended 31 December 2018, RMB3,873,000 in respect of the interest income generated from the short-term investments was recognised in profit or loss (2017: RMB8,884,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. RESTRICTED AND PLEDGED DEPOSITS

	Notes	2018 RMB'000	2017 RMB'000
To secure for:			
– letter of credit issued by banks to guarantee repayment of money market loans	*(a)*	**45,410**	456,511
– the payment of construction cost of development projects	*(b)*	**630,987**	856,520
– others		**233**	233
		676,630	1,313,264

Notes:

(a) As at 31 December 2018, to secure a subsidiary's repayment of a commercial bank's money market loan of HK$50,000,000 (approximately RMB43,810,000) (2017: HK$500,000,000, approximately RMB418,049,000), a bank deposit of RMB45,410,000 (2017: RMB456,511,000) was placed in the local bank in the PRC.

(b) The balance represents deposits received from buyers of pre-sold properties. These deposits are restricted to be used only to pay construction costs of the development projects and will be put for free use by the project companies upon completion of the relevant projects.

30. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Short-term bank deposits	**45,410**	569,111
Cash at bank and in hand	**3,041,283**	3,727,952
	3,086,693	4,297,063
Less: Restricted and pledged deposits *(Note 29)*	**(676,630)**	(1,313,264)
	2,410,063	2,983,799

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Current or less than 1 month	–	–
1 to 3 months	**2,242**	628
More than 3 months but less than 12 months	**3,146**	736
More than 12 months	**4**	4
Total trade payables	**5,392**	1,368
Construction costs payable	**1,708,808**	1,081,148
Tender payable to the suppliers	**61,533**	36,387
Receipt in advance, rental and other deposits from residents and tenants	**15,601**	27,140
Accrued business taxes and surcharges	**77,572**	47,696
Other accrued expenses and other payables	**189,382**	180,607
	2,058,288	1,374,346

32. FINANCIAL GUARANTEE CONTRACT

(a) During the year ended 31 December 2018 and 31 December 2017, the Company provided corporate guarantees to secure for the repayment of subsidiaries' borrowings to the extent of RMB32,270,000. The Directors consider that the exposure of these guarantees is minimal, and therefore no liabilities associated with the financial guarantee contracts are recognised as at 31 December 2018 and 2017.

(b) As at 31 December 2018, the Group provides guarantees to the extent of approximately RMB7,617,557,000 (2017: RMB4,888,199,000) in respect of credit facilities granted by certain banks relating to the mortgage loans arranged for some buyers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage loan payments by these buyers, the Group is responsible for repaying the outstanding mortgage loan principal, accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take legal action against the defaulted buyers for losses and take possession of the related properties from the defaulted buyers. Such guarantees shall terminate upon delivery of properties and issuance of relevant property ownership certificates to the property buyers, which is normally over two years after the delivery of properties. The management, with its assessment of the current and outlook of the market, perceives that the possibility of default in mortgage loans by home buyers is remote and, in the event of default, the liabilities caused to the Group will be minimal as the loss will be adequately mitigated by the proceeds recovered from the sales of the repossessed properties. Accordingly, no provision is made in the accounts for the financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Notes	2018 RMB'000	2017 RMB'000
Bank and other borrowings			
Secured bank borrowings:			
(i) term loans, revolving loans and construction loans	*(a)*	**1,583,778**	1,710,526
(ii) money market loans	*(b)*	**43,810**	506,842
Other secured borrowings:			
(i) trust loans	*(c)(i)(ii)(iii)*	**242,316**	616,008
(ii) secured loans	*(d)(i)(ii)*	**2,799,778**	423,164
Unsecured borrowings:			
(i) unsecured bonds	*(e)(i)(ii)(iii)*	**1,646,900**	1,018,754
(ii) other borrowings	*(f)*	**35,116**	–
		6,351,698	4,275,294
At the end of the year, the maturity profile of the bank and other borrowings are as follows:			
On demand or within one year		**2,817,188**	1,171,198
More than one year, but not exceeding two years		**1,793,166**	1,686,658
More than two years, but not exceeding five years		**405,819**	408,057
After five years		**1,335,525**	1,009,381
		6,351,698	4,275,294
Amounts due within one year included in current liabilities		**(2,817,188)**	(1,171,198)
Amounts due after one year		**3,534,510**	3,104,096
Derivative financial asset			
– Company Redemption Rights on Unsecured Bonds	*(e)(i)(ii)*	**(60,388)**	(46,144)
Derivative financial liabilities			
– Holder Redemption Rights on Unsecured Bonds	*(e)(i)(ii)*	**10,895**	12,333
Amounts due within one year included in current liabilities		**(2,138)**	–
Amounts due after one year		**8,757**	12,333

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes:

(a) At 31 December 2018, bank borrowings are secured by mortgages of ownership titles of properties held for self-use, properties under development and investment properties with an aggregate carrying amount of approximately RMB3,894,749,000 (2017: RMB3,387,207,000). The bank borrowings carry interest at variable market rates ranging from 2.50% to 8.0% per annum (2017: 2.50% to 8.50% per annum) as at 31 December 2018. In addition to mortgages, the Company also provides corporate guarantees to secure the repayment of a term loan and revolving loans with carrying values totaling approximately RMB157,173,000 (2017: RMB153,018,000) and a construction loan with carrying amount of approximately RMB1,426,605,000 (2017: RMB1,278,808,000) are secured by the personal guarantee provided by Mr. YU Pan, the controlling shareholder of the Company, and/or his spouse.

Other than term loans of approximately RMB407,245,000 (2017: RMB61,180,000) which are repayable by monthly instalments until 2033, other bank borrowings in an aggregate amount of approximately RMB1,176,533,000 (2017: RMB1,649,347,000) are repayable in the years between 2019, 2020 and 2021.

As at 31 December 2018, the aggregate carrying values of the aforesaid bank borrowings are RMB1,583,778,000 (2017: RMB1,710,526,000).

(b) As at 31 December 2018, a money market loan of approximately RMB43,810,000 (2017: RMB506,842,000) was extended by an onshore bank secured by a bank deposit of RMB45,410,000 and bore interests at a rate of 3.30% per annum (2017: fixed rate at 1.95% and 2.33%per annum). The maturity date of the money market loan is 24 April 2019.

(c) (i) As at December 2018, a trust loan of principal amount RMB241,400,000 (the "**Trust Loan A**") was provided by a trust company, namely 四川信託有限公司 (Sichuan Trust Company Limited*), to a subsidiary of the Company, namely 徐州建譽置業有限公司 (Xuzhou Jianyu Realty Company Limited*) ("**Xuzhou Jianyu**") engaged in the property development of Xuzhou Skyfame Elegance Garden Project, which is secured by the land use rights and the equity interest in Xuzhou Jianyu. Trust Loan A carries interest at 12.5% per annum and has a term of two years, extendable for one year.

(ii) A trust loan of principal amount RMB114,000,000 (the "**Trust Loan B**") was provided by 四川信託有限公司 (Sichuan Trust Company Limited*) to 徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited*) ("**Xuzhou Yucheng**"), a subsidiary of the Company engaged in the property development of Xuzhou Times City Project, which is secured by the equity interest in Xuzhou Yucheng and some residential units developed in Nanning Skyfame Garden Project. Trust Loan B carries interest at rate of 11.0% per annum. The trust loan was fully repaid in June 2018.

(iii) Some residential units developed in Zhoutouzui project were mortgaged in favour of a trust company, 華信信託有限公司 (Huaxin Trust Company Limited*), for a loan of RMB500,000,000 provided to a subsidiary Guangzhou Zhoutouzui Development Limited ("**GZ Zhoutouzui**") (the "**Trust Loan C**"). Trust Loan C carries a fixed rate interest at 7% per annum and was fully repaid in November 2018.

* *English name is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes: (continued)

(d) (i) A secured loan was extended by China Huarong International Holdings Limited in the principal amount of HK$500,000,000 (RMB438,100,000) (the "**Secured Loan A**") and was drawn down on 25 July 2017. The contractual interest of Secured Loan A was 10% per annum. The Secured Loan A was amortised at an effective interest rate of 11.39% per annum. Secured Loan A has a term of two years and was early repaid on 18 February 2019.

Secured Loan A was secured by legal charges over the entire equity interest in GZ Zhoutouzui, the project company of GZ Zhoutouzui project, 965,580,000 shares of the Company (having adjusted for the sub-division of shares) beneficially held by Mr Yu Pan and personal guarantees of Mr. Yu Pan and his spouse. All securities were discharged upon full repayment of the loan.

(ii) Pursuant to a loan assignment agreement dated 16 July 2018, 中國信達資產管理股份有限公司重慶市分公司 (China Cinda Asset Management Holdings Company Limited, Chongqing Branch*) ("**China Cinda**") took up a debt in the principal amount of RMB2.3 billion (the "**Secured Loan B**") originally owed by 重慶核盛房地產開發有限公司 (Chongqing Hesheng Property Development Company Limited*) ("**CQ Hesheng**"), the project company of Chongqing Project, to 中核房地產開發有限公司 (Zhonghe Property Development Company Limited*) ("**Zhonghe**"), the holding company of CQ Hensheng prior to the Group's acquisition of the equity interest in CQHesheng. The terms of Secured Loan B are 24 months bearing interests charged at an annual rate of 12% and was repayable in five instalments, the first installment becoming due in July 2019. 廣州創富置業有限公司 (Guangzhou Chuangfu Realty Company Limited*) ("**GZ Chuangfu**"), the holding company of CQ Hesheng also acted as a co-borrower of Secured Loan B.

The debts are secured by mortgage over the lands and construction works-in-progress on the lands held by CQ Hesheng and share charges over the shares of CQ Hesheng and GZ Chuangfu.

(e) (i) As at 31 December 2018, the Company has issued to some professional investors unsecured bonds respectively with the principal amounts in aggregate of HK$290,000,000 (RMB254,098,000) due on 12 September 2024 (the "**2024 Bonds**"), HK$80,000,000 (RMB70,096,000) due on 12 September 2025 (the "**2025 Bonds**"), HK$100,000,000 (RMB87,620,000) due on 12 September 2026 (the "**2026 Bonds**"), HK$10,000,000 (RMB8,762,000) due on 15 May 2027 (the "**2027 Bonds**"), HK$570,000,000 (RMB499,434,000) due on 14 November 2031 (the "**2031 Bonds**"), HK$960,000,000 (RMB841,152,000) due on 14 November 2032 (the "**2032 Bonds**"), HK$1,300,000,000 (RMB1,139,060,000) due on 14 November 2033 (the "**2033 Bonds**"), and HK$1,880,000,000 (RMB1,647,256,000) due on 16 June 2034 (the "**2034 Bonds**"). The 2024 Bonds, 2025 Bonds, 2026 Bonds and 2027 Bonds carry coupon interests at 7.5%, whilst the 2031 Bonds, 2032 Bonds, 2033 Bonds and 2034 Bonds carry coupon interests at 8.0% per annum. Interests are payable in advance upon the issue of the bonds. In addition, the bonds are subject to an annual interest of 0.1% per annum payable annually on 14 October (for the 2024 Bonds, 2025 Bonds and 2026 Bonds), 16 June (for the 2027 Bonds and the 2034 Bonds), 14 November (for the 2031 Bonds. 2032 Bonds and 2033 Bonds) until maturity. The bonds were amortised at effective interest rates ranging from 10.92% to 13.14% per annum.

Bondholders have the right to require the Company to redeem the bonds either after 8th anniversary date from the issue of the bonds or at any time with agreed notice period within one month, depending on the relevant bonds. The Company has the right to redeem the 2031 Bonds, 2032 Bonds, 2033 Bonds and 2034 Bonds on specific dates or periods.

* *English name is for identification purpose only.*

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes: (continued)

(e) (continued)

The movements of the bonds are as follows:

	2024 Bonds	2025 Bonds	2026 Bonds	2027 Bonds	2031 Bonds	2032 Bonds	2033 Bonds	2034 Bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nominal value	**290,000**	**80,000**	**100,000**	**10,000**	**570,000**	**960,000**	**1,300,000**	**1,880,000**	**5,190,000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Nominal value	**254,098**	**70,096**	**87,620**	**8,762**	**499,434**	**841,152**	**1,139,060**	**1,647,256**	**4,547,478**
Liability component of carrying amount									
At 31 December 2016 and 1 January 2017	103,551	26,186	8,656	–	94,745	140,732	32,329	–	406,199
Issue of the bonds, net of transaction costs	–	–	59,423	8,718	–	–	981,602	1,190,198	2,239,941
Discounts and interest paid	(246)	(68)	(38,568)	(5,823)	(485)	(817)	(825,851)	(1,005,560)	(1,877,418)
Accrued interest expense	12,819	3,141	2,656	86	11,206	16,780	15,040	3,136	64,864
Exchange differences	(7,200)	(1,818)	(1,827)	(109)	(6,566)	(9,757)	(11,414)	(4,774)	(43,465)
At 31 December 2017 and 1 January 2018	**108,924**	**27,441**	**30,340**	**2,872**	**98,900**	**146,938**	**191,706**	**183,000**	**790,121**
Issue of the bonds, net of transaction costs	–	–	–	–	–	–	–	**596,185**	**596,185**
Discounts and interest paid	**(255)**	**(70)**	**(88)**	–	**(506)**	**(852)**	**(1,154)**	**(494,876)**	**(497,801)**
Accrued interest expense	**14,155**	**3,456**	**3,851**	**356**	**12,277**	**18,391**	**22,909**	**28,797**	**104,192**
Exchange differences	**5,728**	**1,439**	**1,593**	**151**	**5,188**	**7,715**	**10,029**	**16,985**	**48,828**
At 31 December 2018	**128,552**	**32,266**	**35,696**	**3,379**	**115,859**	**172,192**	**223,490**	**330,091**	**1,041,525**

(ii) In 2016, the Company issued unsecured bonds in an aggregate principal amount of HK$100,000,000 (RMB87,620,000) to independent third parties, due on 4 July 2019 (the "**2019 Bonds**"). The 2019 Bonds carry interest at the coupon rate of 10% per annum, which are payable quarterly in arrears, and mature in 2019 but are subject to early redemption right granted to the bondholders. The 2019 Bonds are amortised at the effective interest rate of 11.46% per annum. As at 31 December 2018, the outstanding amount of the bonds was HK$97,500,000 (RMB85,430,000). During the year, principal sums of HK$2,500,000 (RMB2,217,000) had been early redeemed by the bondholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes: (continued)

(e) (continued)

(ii) (continued)

In 2017, the Company issued unsecured bonds in an aggregate principal amount of HK$200,000,000 (approximately RMB175,240,000) ("**2019/2020 Bonds**") to independent third parties. The 2019/2020 Bonds carry interests at the coupon rate of 5% per annum, payable quarterly in arrears, and will mature in 2019 and 2020 but are subject to early redemption right granted to the bondholders. The 2019/2020 Bonds were amortised at the effective interest rates ranging from 13.69 to 14.07% per annum. As at 31 December 2018, the outstanding amount of the bond was HK$156,600,000 (approximately RMB137,213,000). During the year, principal sums of HK$43,400,000 (RMB38,152,000) had been early redeemed from the bondholders.

During the year, the Company has issued the unsecured bonds in an aggregate principal amount of HK$249,000,000 (RMB218,174,000) ("**2021 Bonds**"). The 2021 Bonds carry interests at coupon rate of 6% per annum, payable quarterly in arrears, and will mature in 2021. The Bonds were amortised at the effective interest rate of 11.58% per annum. As at 31 December 2018, the outstanding amount of the bond was HK$249,000,000 (approximately RMB218,174,000).

The movements of the bonds are as follows:

	2019 Bonds	**2019/2020 Bonds**	**2021 Bonds**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Nominal value	**97,500**	**156,600**	**249,000**	**503,100**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Nominal value	**85,430**	**137,213**	**218,174**	**440,817**
Liability component of carrying amount				
At 31 December 2016 and 1 January 2017	83,540	35,121	–	118,661
Reclassified	6,970	3,399	–	10,369
Issue of the bonds, net of transaction costs	–	106,144	–	106,144
Discounts and interest paid	(8,749)	(2,361)	–	(11,110)
Accrued interest expense	8,458	8,311	–	16,769
Exchange differences	(5,815)	(6,385)	–	(12,200)
At 31 December 2017 and 1 January 2018	**84,404**	**144,229**	**–**	**228,633**
Issue of the bonds, net of transaction costs	**–**	**–**	**178,237**	**178,237**
Repayment	**(2,217)**	**(38,152)**	**–**	**(40,369)**
Discounts and interest paid	**(8,448)**	**(8,482)**	**(5,319)**	**(22,249)**
Accrued interest expense	**9,188**	**16,958**	**11,899**	**38,045**
Exchange differences	**4,061**	**7,337**	**9,494**	**20,892**
At 31 December 2018	**86,988**	**121,890**	**194,311**	**403,189**

33. BANK AND OTHER BORROWINGS AND DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Notes: (continued)

(e) (continued)

(iii) In August 2018, the Company had issued secured bonds in the aggregate principal amount of US$30,000,000 (approximately RMB205,896,000) (the "363-day Bonds") to two financial institutions. The 363-day Bonds bear interests charged at the rate of 10% per annum and mature on 28 August 2019. Interest on the 363-day Bonds are payable in arrears on 28 February 2019 and 28 August 2019. On 13 February 2019, bonds of US$12,800,000 were early redeemed by negotiation.

The movements of the bonds are as follows:

	RMB'000
Issue of the Secured Bonds, net of transaction costs	187,569
Accrued interest expense	12,169
Exchange differences	2,448
At 31 December 2018	202,186

(f) In August 2018, an unsecured loan of HK$40,000,000 (RMB35,048,000) was advanced by an individual investor. The loan carries interest at a fixed rate of 10% per annum. The loan is payable in August 2021.

34. AMOUNT DUE TO A JOINT VENTURE

The amount due to a joint venture is unsecured, interest-free and repayable on demand.

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For the year ended 31 December 2018

35. DEFERRED TAX ASSET/LIABILITIES

Movements of the deferred tax asset/liabilities are as follows:

				Revaluation of properties				
	Land appreciation tax	Tax losses	Withholding tax	Leasehold land and building	Investment properties	Properties under development	Properties held for sales	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	(20,727)	(36,626)	–	6,037	87,877	76,608	–	113,169
(Credit)/charged to profit or loss	2,585	36,626	39,975	(259)	91,588	(48,438)	–	122,077
At 31 December 2017 and at 1 January 2018	**(18,142)**	**–**	**39,975**	**5,778**	**179,465**	**28,170**	**–**	**235,246**
Acquisition of subsidiaries	**(2,247)**	**–**	**–**	**9,917**	**55,399**	**70,933**	**203,604**	**337,606**
(Credit)/charged to profit or loss	**(5,260)**	**–**	**(16,475)**	**(260)**	**60,366**	**(18,747)**	**(23,269)**	**(3,645)**
At 31 December 2018	**(25,649)**	**–**	**23,500**	**15,435**	**295,230**	**80,356**	**180,335**	**569,207**

As at 31 December 2018, the Group have estimated unutilised tax losses of approximately RMB121,871,000 (2017: RMB122,577,000) for offsetting against future assessable profits. No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams. The unrecognised tax losses include a balance of RMB57,815,000 (2017: RMB77,048,000) which may be carried forward indefinitely, and the remaining balance of RMB64,057,000 (2017: RMB45,529,000) will expire in five years.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. The relevant overseas holding companies have successfully obtained endorsement from the PRC tax bureau to enjoy the treaty benefit of 5% withholding income tax rate on dividends received from the PRC subsidiaries of the Group. Accordingly, withholding income tax has been provided at 5% (2017: 10%) of the dividends to be distributed by the PRC subsidiaries of the Group for the year ended 31 December 2018.

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For the year ended 31 December 2018

36. SHARE CAPITAL

(a) Authorised and issued share capital

	Notes	Number of shares Ordinary share capital '000	Nominal value Ordinary share capital HK$'000	Equivalent nominal value of ordinary share capital RMB'000
Authorised:				
At 31 December 2017 and 1 January 2018		**30,000,000**	**300,000**	**311,316**
Effect of Share Subdivision	*(i)*	**60,000,000**	**–**	**–**
At 31 December 2018		**90,000,000**	**300,000**	**311,316**
Issued and fully paid:				
At 1 January 2017		2,616,531	26,165	24,456
Shares issued under share option scheme	*(ii)*	1,566	16	13
At 31 December 2017 and 1 January 2018		**2,618,097**	**26,181**	**24,469**
Shares issued under share option scheme	*(ii)*	**30,310**	**303**	**190**
Effect of Share Subdivision	*(i)*	**5,274,268**	**–**	**–**
At 31 December 2018		**7,922,675**	**26,484**	**24,659**

Notes:

(i) Pursuant to an ordinary resolution passed by the shareholders of the Company at the special general meeting of the Company held on 19 October 2018, every one issued and unissued existing ordinary share of HK$0.01 each in the share capital of the Company was subdivided into three subdivided shares of one third Hong Kong cent each (the "Share Subdivision"). The Share Subdivision was completed on 22 October 2018.

(ii) During the year ended 31 December 2018, 6,060,810 options and 9,904,576 options with exercise price of HK$0.6714 and HK$0.2238, adjusted exercise price upon completion of share subdivision, respectively under the 2005 scheme (2017: nil), and 12,976,000 options and 1,368,400 options have been exercised respectively at exercise price of HK$1.082 and HK$0.3607 which was adjusted exercise price upon completion of share subdivision, under the 2015 scheme (2017: 1,556,000 options with exercise price of HK$1.082) to subscribe for aggregate 30,309,786 (2017: 1,556,000) ordinary shares in the Company at a consideration of HK$20,819,486, equivalent to approximately RMB17,616,000, (2017: approximately RMB1,448,000) of which RMB190,000 (2017: RMB13,000) was credited to share capital and the balance of RMB17,426,000 (2017: RMB1,435,000) was credited to share premium. RMB9,498,000 (2017: RMB727,000) transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 4 (q).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. SHARE CAPITAL (continued)

(b) Capital management policy

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Group monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings and derivative financial liabilities less restricted cash and pledged deposits, cash and cash equivalents and short-term investment used as security for borrowings. Capital represents equity attributable to owners of the Group.

The gearing and net debt to equity ratios as at the end of the reporting period are calculated based on the following:

		2018	2017
		RMB'000	*RMB'000*
Total debt		**6,362,593**	4,287,627
Less: restricted cash and pledged deposits		**(676,630)**	(1,313,264)
Less: cash and cash equivalents		**(2,410,063)**	(2,983,799)
Less: short-term investment		**–**	(100,000)
Net debt	**(A)**	**3,275,900**	(109,436)
Equity attributable to owners	**(C)**	**2,913,425**	2,326,029
Capital plus net debt	**(B)**	**6,189,325**	2,216,593
Gearing ratio	**(A/B)**	**52.9%**	-4.9%
Net debt to equity	**(A/C)**	**112.4%**	-4.7%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. RESERVES

	Share premium RMB'000	Contributed surplus reserve RMB'000	Share-based payment reserve RMB'000	Shares held for share award scheme reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Foreign exchange reserve RMB'000	Other/ capital reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	1,662,587	16,116	19,178	–	(293,095)	6,471	(1,441)	743	330,094	1,740,653
Issue of shares: upon exercise of share options	2,162	–	(727)	–	–	–	–	–	–	1,435
Recognition of equity-settled share-based payment expenses	–	–	6,185	–	–	–	–	–	–	6,185
Exchange differences arising on foreign operations	–	–	–	–	–	–	2,827	–	–	2,827
Profit for the year	–	–	–	–	–	–	–	–	550,460	550,460
As at 31 December 2017 and at 1 January 2018	**1,664,749**	**16,116**	**24,636**	**–**	**(293,095)**	**6,471**	**1,386**	**743**	**880,554**	**2,301,560**
Effect on adoption of HKFRS 9	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,645)**	**(3,645)**
Effect on adoption of HKFRS 15	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**21,222**	**21,222**
As at 1 January 2018 (restated)	**1,664,749**	**16,116**	**24,636**	**–**	**(293,095)**	**6,471**	**1,386**	**743**	**898,131**	**2,319,137**
Issue of shares: upon exercise of share options	**26,924**	**–**	**(9,498)**	**–**	**–**	**–**	**–**	**–**	**–**	**17,426**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**5,709**	**–**	**–**	**–**	**–**	**–**	**–**	**5,709**
Exchange differences arising on foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**(4,043)**	**–**	**–**	**(4,043)**
Purchase of shares for share award scheme	**–**	**–**	**–**	**(114,691)**	**–**	**–**	**–**	**–**	**–**	**(114,691)**
Dividend and distribution	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(86,087)**	**(86,087)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**751,315**	**751,315**
At 31 December 2018	**1,691,673**	**16,116**	**20,847**	**(114,691)**	**(293,095)**	**6,471**	**(2,657)**	**743**	**1,563,359**	**2,888,766**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. RESERVES (continued)

(a) The following describes the nature and purpose of each reserve within owners' equity:

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to a capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its owners out of the contributed surplus reserve.
Share-based payment reserve	The reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4(q).
Shares held for share award scheme reserve	The shares held for share award scheme is the consideration paid, including any directly attributable incremental costs for purchase of shares under the Share Award Scheme, in accordance with the accounting policy set out in Note 4(r).
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from non-controlling shareholders prior to 1 January 2007.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.
Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Company were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.
Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(o).
Capital reserve	The amount represents the portion of contribution from the non-controlling shareholders of a subsidiary attributable to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(a) 2005 Scheme

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "**2005 Scheme**").

The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and non-executive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company. Each option gives the holder the right to subscribe or one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue at the offer date (the "**Individual Limited**"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) 2005 Scheme (continued)

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "**Board**") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

(b) 2015 Scheme

The 2005 Scheme expired on 3 August 2015. Therefore, the Company has adopted a new share option scheme on 9 June 2015 (the "**2015 Scheme**").

The Company operates the 2015 Scheme for the purposes of continuing to provide incentives or rewards to eligible participants for contribution they have made or may make to the Group and/or any entity/entities in which the Group holds any entity interest (the "**Invested Entity**"). The Board may at its discretion, grant share options to any of the eligible participants. Eligible participants of the 2015 Scheme include (i) any employee or proposed employee (whether full time or part time), and including executive directors; and (ii) any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity, and for the purpose of the 2015 Scheme, share options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. The 2015 Scheme became effective on 9 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the 2015 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the 2015 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2015 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed, in aggregate, 30% of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised, cancelled and outstanding options) under the 2015 Scheme and any other share option scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant. Any further grant of options in excess of the aforesaid limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its close associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of grant; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) 2015 Scheme (continued)

Details of the movement of the share options are as follows:

					During the year ended 31 December 2017		During the year ended 31 December 2018			
Date of grant	Exercise period	Exercise price per share before the completion of share sub-division	Adjusted exercise price per share after completion of share sub-division	Number of options outstanding at 1 January 2017	Options exercised	Number of options outstanding at 31 December 2017 and 1 January 2018	Options exercised	Adjusted options upon completion of share sub-division	Options exercised after completion of share sub-division	Number of options outstanding at 31 December 2018
11 August 2011	11 August 2012 to 10 August 2021	HK$0.6714	HK$0.2238	5,942,929	–	5,942,929	(3,219,826)	5,446,206	(4,103,094)	**4,066,215**
11 August 2011	11 August 2015 to 10 August 2021	HK$0.6714	HK$0.2238	5,942,930	–	5,942,930	(2,840,984)	6,203,892	(923,432)	**8,382,406**
11 August 2011	11 August 2018 to 10 August 2021	HK$0.6714	HK$0.2238	5,942,932	–	5,942,932	–	11,885,864	(4,878,050)	**12,950,746**
				17,828,791	–	17,828,791	(6,060,810)	23,535,962	(9,904,576)	**25,399,367**
26 June 2015	26 June 2016 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	(786,500)	8,622,900	(4,884,300)	7,477,200	–	**11,215,800**
26 June 2015	26 June 2017 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	(779,500)	8,629,900	(4,137,700)	8,984,400	(1,003,000)	**12,473,600**
26 June 2015	26 June 2018 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	–	9,409,400	(3,954,000)	10,910,800	(365,400)	**16,000,800**
26 June 2015	26 June 2019 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	–	9,409,400	–	18,818,800	–	**28,228,200**
26 June 2015	26 June 2020 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	–	9,409,400	–	18,818,800	–	**28,228,200**
26 June 2015	26 June 2021 to 25 June 2025	HK$1.0820	HK$0.3607	9,409,400	–	9,409,400	–	18,818,800	–	**28,228,200**
26 June 2015	26 June 2022 to 25 June 2025	HK$1.0820	HK$0.3607	9,343,600	–	9,343,600	–	18,687,200	–	**28,030,800**
				65,800,000	(1,566,000)	64,234,000	(12,976,000)	102,516,000	(1,368,400)	**152,405,600**
				83,628,791	(1,566,000)	82,062,791	(19,036,810)	126,051,962	(11,272,976)	**177,804,967**
Weighted average exercise price				HK$0.9945	HK$1.0820	HK$0.9928	HK$0.9513	HK$0.3351	HK$0.2404	**HK$0.3411**
Analysis by category:										
Directors				16,213,097	–	16,213,097	(656,000)	31,114,194	(5,000,000)	**41,671,291**
Other employees				67,415,694	(1,566,000)	65,849,694	(18,380,810)	94,937,768	(6,272,976)	**136,133,676**
				83,628,791	(1,566,000)	82,062,791	(19,036,810)	126,051,962	(11,272,976)	**177,804,967**

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The estimated fair value of each option granted on 11 August 2011 and 26 June 2015 were HK$0.42 and HK$0.58 respectively. The following information is relevant in the determination of the fair value of options granted during the year under the 2005 Scheme and the 2015 Scheme:

	2005 Scheme
Option pricing model	Binomial Model
Date of grant	11 August 2011
Closing share price at the date of grant	HK$0.67
Exercise price per share (initial)	HK$0.70
Exercise price per share (adjusted for share sub-division)	HK$0.2238
Annual risk-free rate	1.84%
Expected volatility	74%
Life of the option	10 years
Expected dividend yield	NIL

	2015 Scheme
Option pricing model	Binomial Model
Date of grant	26 June 2015
Closing share price at the date of grant	HK$1.02
Exercise price per share (initial)	HK$1.082
Exercise price per share (adjusted for share sub-division)	HK$0.3607
Annual risk-free rate	1.81%
Expected volatility	56%
Life of the option	10 years
Expected dividend yield	NIL

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For the year ended 31 December 2018

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

The share options granted on 11 August 2011 and 26 June 2015 are subject to the following vesting schedules and the vesting condition is that the individual remains a director or an employee of the Group at the time of exercise the options:

	2005 Scheme
Option Exercise Period	**Number of share options exercisable**
From 11/8/2012 to 10/8/2021	33%
From 11/8/2015 to 10/8/2021	33%
From 11/8/2018 to 10/8/2021	34%
	100%

	2015 Scheme
Option Exercise Period	**Number of share options exercisable**
From 26/6/2016 to 25/6/2025	14.30%
From 26/6/2017 to 25/6/2025	14.30%
From 26/6/2018 to 25/6/2025	14.30%
From 26/6/2019 to 25/6/2025	14.30%
From 26/6/2020 to 25/6/2025	14.30%
From 26/6/2021 to 25/6/2025	14.30%
From 26/6/2022 to 25/6/2025	14.20%
	100.00%

The fair value of share options granted is recognised as employee costs with a corresponding increase in share-based payment reserve within equity over the relevant vesting periods. The Group recognised RMB5,709,000 (2017: RMB6,185,000) (as disclosed in note 10), as equity-settled share-based payment expenses for the year ended 31 December 2018 in relation to share options granted by the Company.

The exercise prices of options outstanding at the end of the year are HK$0.2238 to HK$0.3607, both are adjusted with the effect of the share subdivision. During the year ended 31 December 2018, 30,310,000 share options (2017: 1,566,000) were exercised, the weighted average share price at the date of exercise of option is HK$0.363 (2017: HK$1.082). The weighted average fair value of each option granted during the year ended 31 December 2018, was HK$0.53 (2017: HK$0.53).

The number of exercisable options as at 31 December 2018 is 69,089,567, after adjusted by completion of share subdivision (2017: 29,138,659) (granted in 2011 and 2015). The weighted average remaining contractual life of the outstanding options as at 31 December 2018 is 7.1 years (2017: 5.96 years).

NOTES TO THE FINANCIAL STATEMENTS

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39. SHARE AWARD SCHEME BY THE COMPANY

On 3 July 2018 (the "**Adoption Date**"), the Board adopted a share award scheme (the "**Share Award Scheme**") to provide employee(s) of the Group) with an opportunity to hold a proprietary interest in the Company and at the same time of (i) recognizing the contributions by employees and give incentives thereto in order to retain them for the continual operation and development of the Group; and (ii) attracting suitable personnel for further development of the Group.

The Board may, from time to time, at its absolute discretion select any employee for participation in the Share Award Scheme as a selected employee (the "**Selected Employee**"), save and except that the selection of a Director as a Selected Employee, the terms and conditions of the Award to such Director and the number of Awarded Shares thereunder shall be approved by the Board upon the recommendation of the Remuneration Committee.

For any award of Shares to Selected Employees who are connected persons (within the meaning of the Listing Rules and excluding directors whose service contracts include the share award under the Share Award Scheme as part of their remuneration package), such award must be approved by all the independent non-executive Directors (excluding the independent non-executive Director who is the relevant Selected Employee).

On the Adoption Date, the Company appointed a trustee, Core Pacific – Yamaichi International (H.K.) Nominees Limited (the "**Trustee**"), an independent third party, for the administration of the Share Award Scheme. Pursuant to the terms of the Share Award Scheme, the Board may, from time to time , at its absolute discretion cause to be paid to the Trustee sums of money from the Company's resources for the purchase of Shares. The Trustee shall hold such shares in trust until they are vested to the beneficiaries in accordance to the rules of the Share Award Scheme.

The Share Award Scheme came into effect on the Adoption Date, and shall terminate on the earlier of (i) the tenth anniversary date; and (ii) such date of early termination as determined by the directors of the Company.

For the year ended 31 December 2018, the Board approved and transferred approximately HK$150,000,000 to the Trustee. As at 31 December 2018, 125,540,000 shares were purchased for a total cash consideration of approximately HK$129,426,000 (equivalent to approximately RMB114,691,000) and held by the Trustee representing approximately 1.58% of the issued share capital of the Company.

All the shares held by the Trustee for the purpose of the Scheme are listed below:

	Number of shares
At 31 December 2018	125,540,000
% of the issued share capital	1.58%

No award shares have been granted to Selected Employee(s) since the commencement of the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash from operating activities

	Notes	2018 RMB'000	2017 RMB'000
Profit before income tax		**1,644,102**	1,038,504
Adjustments for:			
Finance costs	8	**53,920**	33,088
Finance income	8	**(17,669)**	(36,483)
Equity-settled share-based payment expenses		**5,709**	6,185
Depreciation of property, plant and equipment	9	**18,871**	13,333
Amortisation of leasehold land	16	**3,407**	3,407
Exchange loss, net		**56,996**	(130,873)
Fair value changes in financial derivative asset/liabilities		**1,476**	(13,080)
Loss on early repayment of term loans		**–**	23,418
Gain on early repayment of unsecured bonds		**(1,979)**	–
Share of loss in joint venture, net of tax		**8,101**	–
Impairment loss of trade and other receivables	26	**5,721**	–
Impairment loss of loan to a non-controlling shareholder of a subsidiary		**524**	–
Gain from bargaining purchase	40(c)	**(81,214)**	–
Fair value changes in investment properties	17	**(66,405)**	(35,701)
Gain on properties valuation	17	**(203,297)**	(353,351)
Write-down of properties under development/ properties held for sale		**–**	131,299
Impairment loss on goodwill	18	**13,554**	–
Operating profit before working capital changes		**1,441,817**	679,746
(Increase)/decrease in properties under development		**(28,252)**	4,619,167
Decrease/(increase) in properties held for sale		**2,124,064**	(3,806,812)
Decrease/(increase) in trade and other receivables		**3,779**	(1,116,372)
Decrease in trade and other payables		**(488,070)**	(73,099)
Increase in contract costs		**(80,698)**	–
Increase in contract liabilities/ properties pre-sale deposits		**128,756**	531,079
Consideration received from disposal of Tianhe Project and Yongzhou Project		**–**	277,401
Cash generated from operations		**3,101,396**	1,111,110
Income tax paid		**(698,594)**	(138,596)
Net cash from operating activities		**2,402,802**	972,514

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows from financing activities.

	Bank loans and other borrowings *(note 33)* *RMB'000*	**Derivative financial liabilities** *(note 33)* *RMB'000*
At 1 January 2017	**3,456,063**	13,359
Changes from cash flows:		
Additions	**5,400,050**	30,306
Repayment/settlement	**(2,587,677)**	(16,197)
Interest paid	**(1,935,918)**	–
Other borrowing costs paid	**(101,558)**	–
Total changes from financing cash flows:	**774,897**	14,109
Exchange adjustments:	**(146,075)**	(816)
Changes in fair value:	**–**	(14,319)
Other changes:		
Interest expenses	**166,991**	–
Issue of the Secured/Unsecured Bonds	**23,418**	–
Total other changes	**190,409**	–
At 31 December 2017 and 1 January 2018	**4,275,294**	12,333
Changes from cash flows:		
Additions	**4,872,821**	–
Repayment/settlement	**(6,797,103)**	(1,978)
Interest paid	**(515,752)**	–
Other borrowing costs paid	**(64,623)**	–
Total changes from financing cash flows:	**(2,504,657)**	(1,978)
Exchange adjustments:	**70,342**	616
Changes in fair value:	**–**	(76)
Other changes:		
Interest expenses	**203,705**	–
Acquisition of a subsidiary	**4,307,014**	–
Total other changes	**4,510,719**	–
At 31 December 2018	**6,351,698**	10,895

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Business Combination

On 31 March 2018, the Group acquired from independent third parties 100% equity interest in a company which is engaged in property development in the PRC. The acquisition was agreed at an aggregate consideration of RMB4,907,014,000. This transaction was accounted for on the consolidated financial statements using the acquisition method.

The fair value of net identifiable assets acquired and the gain from bargain purchase arising therefrom are as follows:

	Total amount recognised at the date of acquisition *RMB'000*
Fair value of net identifiable assets of the subsidiary acquired:	
Property, plant and equipment	14,547
Investment properties	1,163,000
Deferred tax assets	2,246
Properties under development	2,624,800
Properties held for sale	2,513,861
Trade and other receivables	7,144
Cash and cash equivalents	68,631
Trade and other payables	(467,370)
Amount due to a shareholder	(4,307,014)
Contract liabilities	(609,848)
Deferred tax liabilities	(328,783)
Net assets acquired	681,214
Total consideration satisfied by:	
Cash	550,000
Consideration payable	4,357,014
Settlement of shareholder's loan	(4,307,014)
Gain from bargaining purchase	81,214
	681,214
Net cash outflow on acquisition of subsidiary:	
Cash	(550,000)
Cash and cash equivalents acquired	68,631
Net cash used in operating activities	(481,369)

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Business Combination (continued)

Gain from bargaining purchase was due to the sellers, intention to wind up and exit from their investments in the property development business.

The acquired businesses contributed total revenues of RMB941,282,000 and net loss of RMB103,610,000 to the Group for the period from their respective acquisition dates to 31 December 2018. Had these companies been consolidated from 1 January 2018, the consolidated statement of profit or loss and other comprehensive income would show pro-forma revenue of RMB6,404,104,000 and profit for the year of RMB527,457,000.

As at 31 December 2018, the balance consideration of RMB50,000,000 will be payable in the first quarter of 2019 as per sale and purchase agreement or on an extended date mutually agreed.

41. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in the defined contribution pension plans organised by the municipal and provincial governments for the benefits of its employees in the PRC. The Group is required to make contributions to the plans at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and have not previously participated in the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (approximately RMB25,000). The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under all the plans, the Group has no other obligation for the payment of its employees' retirement and other postretirement benefits other than contributions described above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

42. OPERATING LEASE COMMITMENTS

Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2018	2017
	RMB'000	*RMB'000*
Within one year	**826**	2,062

Lessor

At the end of the reporting period, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of commercial properties leased out which fall due as follows:

	2018	2017
	RMB'000	*RMB'000*
Within one year	**21,199**	12,806
Later than one year but within five years	**49,128**	28,409
Later than five years	**–**	–
	70,327	41,215

43. COMMITMENTS

	2018	2017
	RMB'000	*RMB'000*
Expenditure contracted but not provided for in respect of		
– Property construction and development costs	**2,313,928**	2,318,950

44. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018 (2017: Nil).

45. PLEDGE OF ASSETS

As at 31 December 2018 and 2017, the Group's assets with carrying amounts included in the following categories in the consolidated statement of financial position were pledged to secure credit facilities granted to the Group as disclosed in note 33:

	2018 *RMB'000*	2017 *RMB'000*
Leasehold land and building	221,398	190,409
Investment properties	1,867,157	615,400
Properties under development	6,370,886	2,847,096
Properties held for sale	–	567,658
Short-term investments	–	100,000
Pledged deposits	45,410	456,511
	8,504,851	4,777,074

In addition, at the 31 December 2018 and 2017, the Group's certain loan facilities were secured by:

– shares in certain subsidiaries of the Company;
– corporate guarantees provided by the Company; and
– personal guarantee provided by Mr. YU Pan and legal charge over shares beneficially owned by Mr. YU Pan, as disclosed in notes 33(a) and 33(d) provided by the Company.

46. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties:

(a) Material transactions with related parties

Related party relationship	Type of transaction	**2018** ***RMB'000*** Transaction amount	2017 *RMB'000*
Companies beneficially owned by Mr. YU Pan and his spouse	(i) Rental income received for office leasing to a related company	**111**	111
	(ii) Management fee paid to a related company	**(200)**	(200)
	(iii) Consideration paid for acquisition of a subsidiary from a related company *(note 16)*	**(45,126)**	–
	(iv) Consideration received for disposal of Yongzhou Project to a related company	–	137,401

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For the year ended 31 December 2018

46. RELATED PARTY TRANSACTIONS (continued)

(b) Personal guarantee by the Chairman

As at 31 December 2018, Mr. YU Pan and a company controlled by him have provided personal guarantee and corporate guarantee to lenders in respect of the loan facilities extended to some Company's subsidiaries as disclosed in notes 33(a) and 33(d)(i).

(c) Compensation of key management personnel

The remuneration of members of senior management, including Directors' emoluments as disclosed in note 11, incurred during the year is analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Short-term benefits	**30,400**	28,735
Other long-term benefits	**462**	566
Equity-settled share-based payment expenses	**2,802**	3,355
	33,664	32,656

Members of senior management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

Financial assets of the Group mainly include available-for-sale investment, cash and cash equivalents, restricted and pledged deposits, consideration receivable, trade and other receivables, derivative financial asset, short-term investments and loan to a non-controlling shareholder of a subsidiary. Financial liabilities of the Group include bank and other borrowings, derivative financial liabilities and trade and other payables. The Group does not hold any financial instruments for trading purposes at the end of the reporting period.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

(a) Foreign currency risk

The Group and the Company have transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's monetary assets/(liabilities) which are denominated in currencies other than the functional currencies of the respective group entities at the end of the reporting period are as follows:

	2018	2017
	RMB'000	*RMB'000*
Derivative financial asset		
– HK$	**60,388**	46,144
Cash and cash equivalents		
– US$	**3,731**	69,072
– HK$	**68,165**	136,069
Bank and other borrowings		
– US$	**(202,186)**	–
– HK$	**(2,157,092)**	(2,102,053)
Derivative financial liabilities		
– HK$	**(10,895)**	(12,333)

The following table demonstrates the effect of sensitivity to reasonably possible changes in US$ and HK$ exchange rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2018		2017	
	Change in exchange rate	**Increase (decrease) in loss after income tax**	Change in exchange rate	Increase (decrease) in loss after income tax
	%	***RMB'000***	%	*RMB'000*
If United States dollar weakens against Renminbi	**4%**	**7,938**	4%	(2,763)
If United States dollar strengthens against Renminbi	**4%**	**(7,938)**	4%	2,763
If Hong Kong dollar weakens against Renminbi	**4%**	**81,577**	4%	77,287
If Hong Kong dollar strengthens against Renminbi	**4%**	**(81,577)**	4%	(77,287)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

(b) Interest rate risk

The following table details the interest rate profile of the Group's financial assets and liabilities as at the end of the reporting period based upon which the Company's management evaluates the interest rate risk:

	2018		2017	
	Effective interest rate *(% per annum)*	**Amount** *RMB'000*	Effective interest rate *(% per annum)*	Amount *RMB'000*
The Group				
Financial assets				
Fixed rate receivables				
– Availible-for-sale investment	**–**	**–**	8.00%	10,000
– Financial asset at fair value through profit or loss	**8.00%**	**10,000**	–	–
– Short term investments	**–**	**–**	3.30%	100,000
– Restricted and pledged deposits	**1.60% to 1.82%**	**45,410**	1.95% to 2.33%	456,511
Floating rate receivables				
– Loan to a non-controlling shareholder of a subsidiary	**4.79%**	**51,847**	4.79%	52,900
– Restricted and pledged deposits	**0.35%**	**631,220**	0.35%	856,753
– Other cash at bank	**0.01% to 0.35%**	**2,410,063**	0.01% to 0.35%	2,983,799
Financial liabilities				
Fixed rate borrowings				
– Other borrowings	**7.50% to 14.07%**	**4,724,110**	7.00% to 11.00%	2,057,926
Floating rate borrowings				
– Bank borrowings	**3.00% to 8.50%**	**1,627,588**	2.10% to 8.50%	2,217,368

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's floating rate restricted and pledged deposits, loan to a non-controlling shareholder of a subsidiary, cash at bank included in cash and cash equivalents and bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk of the Group's borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's loss after income tax in the next accounting period:

	2018		2017	
	Increase/ (decrease) in basis points	**(Decrease)/ increase in loss after income tax** *RMB'000*	Increase/ (decrease) in basis points	(Decrease)/ increase in loss after income tax *RMB'000*
Floating rate financial assets				
Increase in floating rate	**100**	**30,942**	100	38,814
Decrease in floating rate	**(100)**	**(30,942)**	(100)	(38,814)
Floating rate financial liabilities				
Increase in floating rate	**500**	**(81,379)**	500	(110,868)
Decrease in floating rate	**(500)**	**81,379**	(500)	110,868

(c) Credit risk

The Group's exposure to credit risk arises from the trade and other receivables, contract costs, refundable deposits for proposed projects and land held for development and loans to non-controlling shareholder of subsidiary. Management has performed in-depth due diligence reviews of the financial background and creditability of the counterparties who owe debts to the Group.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty is low. At the end of the reporting period, the Group has placed these deposits with banks and financial institutions of high credit.

Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers to whom credits are offered requiring credit over a certain amount. At the end of the reporting period, there is no significant concentration of credit risk in trade and other receivables.

The Group measures loss allowances for trade and other receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

(c) Credit risk (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for those exposed trade and other receivables as at 31 December 2018:

Trade receivables	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	**0.1%**	**804**	(1)
1 – 3 months past due	**2%**	**175,294**	(3,506)
More than 3 months but less than 1 year past due	**5%**	**22,366**	(1,118)
More than 1 year past due	**10%**	**2,890**	(289)
		201,354	(4,914)

Other receivables	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Current (not past due)	**0.1%**	**63,413**	(63)
1 – 3 months past due	**1%**	**36,770**	(368)
More than 3 months but less than 6 year past due	**3%**	**7,599**	(228)
More than 6 months but less than 1 year past due	**5%**	**2,918**	(146)
More than 1 year past due	**20%**	**15,591**	(3,118)
		126,291	(3,923)

47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(k)B(ii)). At 31 December 2017, there was no impairment on trade receivables. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	2017 *RMB'000*
Current (not past due)	1,370
1 – 3 months past due	380
More than 3 months but less than 1 year past due	542
More than 1 year past due	539
	2,831

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade and other receivables during the two years is as follows:

	RMB'000	*RMB'000*
Balance at 31 December 2017 under HKAS 39		1,570
Impact of initial application of HKFRS 9 *(note 2(a)(ii))*	**3,116**	3,116
Adjusted balance at 1 January 2018		4,686
Amounts written off during the year	**–**	–
Impairment losses recognised during the year	**5,721**	5,721
Balance at 31 December 2018		10,407

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47. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

(d) Liquidity risk

The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	Total undiscounted cash flow							
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2018								
Trade and other payables	**27,165**	**222,439**	**1,808,684**	**–**	**–**	**–**	**2,058,288**	**2,058,288**
Bank and other borrowings	**156,690**	**69,788**	**1,815,900**	**2,541,059**	**540,683**	**4,913,773**	**10,037,893**	**6,351,698**
Amount due to a joint venture	**55,817**	**–**	**–**	**–**	**–**	**–**	**55,817**	**55,817**
Guarantee for property mortgage	**7,617,557**	**–**	**–**	**–**	**–**	**–**	**7,617,557**	**–**
	7,857,229	**292,227**	**3,624,584**	**2,541,059**	**540,683**	**4,913,773**	**19,769,555**	**8,465,803**
2017								
Trade and other payables	9,105	139,123	1,226,118	–	–	–	1,374,346	1,374,346
Bank and other borrowings	153,018	161,719	1,086,993	1,911,904	524,237	3,940,451	7,778,322	4,275,294
Guarantee for property mortgage	4,888,199	–	–	–	–	–	4,888,199	–
	5,050,322	300,842	2,313,111	1,911,904	524,237	3,940,451	14,040,867	5,649,640

Note:

As at 31 December 2018, the bank borrowings of the Group of approximately RMB43,810,000 (2017: RMB506,842,000) were secured by standby letters of credit issued by bank that were secured by the Group's bank deposits of RMB45,410,000 (2017: bank deposits of RMB456,511,000 and short-term investments of RMB100,000,000) maturing at the same time of the bank borrowing.

48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group and the Company at the end of the reporting period:

	2018		2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivable				
– Trade and other receivables	**1,611,504**	***(Note)***	1,200,792	*(Note)*
– Refundable deposits for proposed projects and land held for development	**803,908**	***(Note)***	771,060	*(Note)*
– Contract costs	**80,698**	***(Note)***	–	*(Note)*
– Short-term investments	**–**	***(Note)***	100,000	*(Note)*
– Loan to a non-controlling shareholder of a subsidiary	**51,847**	***(Note)***	52,900	*(Note)*
– Restricted and pledged deposits	**676,630**	***(Note)***	1,313,264	*(Note)*
– Cash and cash equivalents	**2,410,063**	***(Note)***	2,983,799	*(Note)*
Fair value through other comprehensive income				
– Available-for-sale investment	**–**	**–**	10,000	*(Note)*
Fair value through profit or loss				
– FVTPL	**10,000**	***(Note)***	–	–
– Derivative embedded in unsecured bonds	**60,388**	**60,388**	46,144	46,144
Financial liabilities				
Financial liabilities at amortised costs				
– Trade and other payables	**2,058,288**	***(Note)***	1,374,346	*(Note)*
– Bank and other borrowings:				
the Secured Loans	**2,799,778**	***(Note)***	423,164	*(Note)*
the Secured Bonds	**–**	**–**	–	–
the Unsecured Bonds	**1,646,900**	**1,375,225**	1,018,754	914,527
bank and other borrowings	**1,905,020**	***(Note)***	2,833,376	*(Note)*
Fair value through profit or loss				
– Derivative embedded in unsecured bonds	**10,895**	**10,895**	12,333	12,333

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Note:

Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, refundable deposits for proposed projects and land held for development, contract costs, short-term investments, loan to a non-controlling shareholder of a subsidiary, restricted and pledged deposits, cash and cash equivalents, trade and other payables and bank and other borrowings.

The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the end of the reporting period.

The fair value of bank and other borrowings issued for disclosure purposes has been determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions.

Financial instruments measured at fair value

The fair value of derivative instruments are calculated by option pricing models which are used for option derivatives.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the liability that are not based on observable market data (unobservable inputs).

	2018	2017
	Level 3	Level 3
	RMB'000	*RMB'000*
Financial asset at fair value through profit or loss		
– Derivative embedded in unsecured bonds (note 33)	**60,388**	46,144
Financial liabilities at fair value through profit or loss		
– Derivatives embedded in unsecured bonds (note 33)	**10,895**	12,333

48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Financial asset *RMB'000*	Financial liabilities *RMB'000*	**2018** ***RMB'000***	2017 *RMB'000*
At 1 January	(46,144)	12,333	**(33,811)**	4,337
Issue of the Secured/Unsecured Bonds	(12,301)	–	**(12,301)**	(27,180)
Early repayment of Unsecured Bonds	–	(1,979)	**(1,979)**	–
Total gains or losses:				
– Changes in fair value recognised in profit or loss during the year	1,552	(76)	**1,476**	(13,080)
– Exchange differences	(3,495)	617	**(2,878)**	2,112
At 31 December	(60,388)	10,895	**(49,493)**	(33,811)

During the year ended 31 December 2018, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Liabilities for which fair value are disclosed

	Valuation technique	Significant inputs	**2018** **Level 3** ***RMB'000***	2017 Level 3 *RMB'000*
Bank and other borrowings				
– the Unsecured Bonds	The hull-white trinomial tree	Discount rate and short-term volatility parameter	**1,375,225**	914,527

Note: The fair value of the unsecured bonds were taken into account for the redemption features.

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48. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE (continued)

Financial asset/ liabilities"	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs *(Note)*	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss	Derivative financial liabilities – Holder Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, higher the holder redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the holder redemption rights
Financial assets at fair value through profit or loss	Derivative financial assets – Company Redemption Rights	Level 3	The hull-white trinomial tree	Discount Rate	Higher the discount rate, lower the company redemption rights
				Short-term volatility parameter	Higher the short-term volatility parameter, higher the company redemption rights

Note:

If the discount rate is 5% higher/lower while all other variables were held constant, the carrying amount of the derivative financial liabilities/assets (Holder Redemption Rights and Company Redemption Rights) would decrease/increase by approximately RMB32,513,000 and RMB34,040,000 respectively as at 31 December 2018 (2017: RMB28,631,000 and RMB29,998,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2018

	Note	**2018** *RMB'000*	2017 *RMB'000*
Non-current assets			
Interests in subsidiaries		**3,500,078**	2,962,429
Derivative financial asset		**60,388**	46,144
		3,560,466	3,008,573
Current assets			
Amounts due from subsidiaries		**18,282**	24,513
Prepayments and other receivables		**28,961**	21,492
Cash and cash equivalents		**47,676**	149,350
		94,919	195,355
Current liabilities			
Accruals and other payables		**6,295**	2,287
Bank and other borrowings – current portion		**782,997**	506,842
Derivative financial liabilities – current portion		**2,138**	–
Income tax payable		**55,830**	55,830
		847,260	564,959
Net current liabilities		**(752,341)**	(369,604)
Total assets less current liabilities		**2,808,125**	2,638,969
Non-current liabilities			
Other borrowings – non-current portion		**1,419,108**	1,441,918
Derivative financial liabilities – non-current portion		**8,757**	12,333
		1,427,865	1,454,251
Net assets		**1,380,260**	1,184,718
Capital and reserves			
Share capital		**24,659**	24,469
Reserves	*50*	**1,355,601**	1,160,249
Total equity		**1,380,260**	1,184,718

On behalf of the Board

Yu Pan
Director

WANG Chenghua
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

50. RESERVES OF THE COMPANY

	Share premium	Contributed surplus reserve	Share-based payment reserve	Shares held for share award scheme reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	1,662,587	16,116	19,178	–	(392,114)	1,305,767
Issue of shares: upon exercise of share options	2,162	–	(727)	–	–	1,435
Recognition of equity-settled share-based payment expenses	–	–	6,185	–	–	6,185
Loss for the year	–	–	–	–	(153,138)	(153,138)
As at 31 December 2017 and at 1 January 2018	1,664,749	16,116	24,636	–	(545,252)	1,160,249
Effect on adoption of HKFRS 9	–	–	–	–	(10,618)	(10,618)
At 1 January 2018 (restated)	1,664,749	16,116	24,636	–	(555,870)	1,149,631
Issue of shares: upon exercise of share options	**26,924**	**–**	**(9,498)**	**–**	**–**	**17,426**
Recognition of equity-settled share-based payment expenses	**–**	**–**	**5,709**	**–**	**–**	**5,709**
Purchase of shares for share award scheme	**–**	**–**	**–**	**(114,691)**	**–**	**(114,691)**
Dividend and distribution					**(86,087)**	**(86,087)**
Profit for the year	**–**	**–**	**–**	**–**	**383,613**	**383,613**
At 31 December 2018	**1,691,673**	**16,116**	**20,847**	**(114,691)**	**(258,344)**	**1,355,601**

51. PRINCIPAL SUBSIDIARIES

	Notes	2018	2017
		RMB'000	*RMB'000*
Interests in subsidiaries – non-current portion			
Unlisted investments, at cost	*(a), (c)*	**3,500,078**	2,962,429
Amounts due from subsidiaries – current portion			
Amounts due from subsidiaries	*(b)*	**46,886**	42,499
Less: Impact of initial application of HKFRS 9		**(10,618)**	–
Less: Provision for impairment loss		**(17,986)**	(17,986)
		18,282	24,513
		3,518,360	2,986,942
Amounts due to subsidiaries	*(b)*	**–**	–

51. PRINCIPAL SUBSIDIARIES (continued)

Notes:

(a) Details of the Company's principal operating subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/paid-up capital 2018	2017	Percentage of equity interest held by the Company 2018 Directly	2018 Indirectly	2017 Directly	2017 Indirectly	Principal activities
重慶核盛房地產開發有限公司 (Chongqing Hesheng Real Estate Development Company Limited)*	PRC	RMB50,000,000	–	–	100%	–	–	Property development in the PRC
廣州市創豪譽投資管理諮詢有限公司 (前稱廣州市創譽房地產有限公司) (Guangzhou Chuanghaoyu Investment Management Consulting Company Limited* ("Chuanghaoyu")	PRC	United States dollar ("US$") 6,000,000	United States dollar ("US$") 6,000,000	–	100%	–	100%	Investment holding and property leasing
廣州市豪浚置業有限公司 (Guangzhou Haojun Realty Company Limited)	PRC	RMB50,000,000	–	–	100%	–	100%	Investment holding
廣州市天譽物業管理有限公司 (Guangzhou Tianyu Property Management Company Limited)*	PRC	RMB53,000,000	RMB53,000,000	–	100%	–	100%	Property management services
廣州市天譽科技創新投資有限公司 (Guangzhou Tianyu Technology Innovative Company Limited)*	PRC	RMB50,000,000	RMB50,000,000	–	70%	–	70%	Provision of innovative technology operating services
廣州譽浚諮詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited)* ("Gz Yu Jun")	PRC	HK$8,000,000	HK$5,000,000	–	100%	–	100%	Investment holding and provision of property development project management services in the PRC
Guangzhou Zhoutouzui Development Limited	Hong Kong	HK$100	HK$100	–	100%	–	100%	Investment holding
南寧市明安醫院管理有限公司 (Nanning Mingan Hospital Management Company Limited)* ("Nanning Mingan")	PRC	RMB210,000,000	–	–	70%	–	–	Hospital operation in the PRC
南寧天譽巨成置業有限公司 (Nanning Tianyu Jucheng Realty Company Limited)* ("Nanning Jucheng")	PRC	RMB50,000,000	RMB50,000,000	–	80%	–	80%	Property development in the PRC
南寧天譽巨榮置業有限公司 (Nanning Tianyu Jurong Realty Company Limited)*	PRC	RMB50,000,000	RMB50,000,000	–	100%	–	100%	Property development in the PRC
南寧天譽譽浚投資有限公司 (Nanning Tianyu Yujun Investment Company Limited)*	PRC	RMB50,000,000	RMB50,000,000	–	100%	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

51. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(a) (continued)

Name of subsidiaries	Place of incorporation/ establishment/ operation	Particulars of issued ordinary shares/paid-up capital 2018	2017	Percentage of equity interest held by the Company 2018 Directly	2018 Indirectly	2017 Directly	2017 Indirectly	Principal activities
Skyfame Management Services Limited	Hong Kong	**HK$1**	HK$1	**100%**	**–**	100%	–	Provision of management services to group entities
Trenco Holdings Limited	Hong Kong	**HK$10,000**	HK$10,000	**–**	**100%**	–	100%	Investment holding
Waymax Investments Limited	Hong Kong	**HK$1**	HK$1	**–**	**100%**	–	100%	Property investment
Winprofit Investments Limited	BVI	**US$100**	US$100	**100%**	**–**	100%	–	Investment holding
徐州譽城置業有限公司 (Xuzhou Yucheng Realty Company Limited)* ("**Xuzhou Yucheng**")	PRC	**RMB55,000,000**	RMB138,000,000	**–**	**70%**	–	70%	Property development in the PRC
徐州建譽置業有限公司 (Xuzhou Jianyu Realty Company Limited)* ("**Xuzhou Jianyu**")	PRC	**RMB113,500,000**	RMB311,500,000	**–**	**78%**	–	78%	Property development in the PRC
中山市天譽萬利房地產開發有限公司 (Zhongshan Tianyu Wanli Property Development Company Limited)*	PRC	**RMB1,000,000**	–	**–**	**51%**	–	–	Property development in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

Chuanghaoyu and GZ Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

Xuzhou Yucheng is a sino-foreign joint venture company established in PRC.

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

(c) Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

* *English name is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

51. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

Summarised statement of financial position

	Nanning Jucheng As at 31 December		Nanning Mingan As at 31 December		Xuzhou Yucheng As at 31 December		Xuzhou Jianyu As at 31 December		Zhongshan Tianyu As at 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current										
Assets	**2,776,736**	3,995,632	**12,305**	–	**2,159,480**	1,034,548	**619,733**	722,068	**932,685**	304,946
Liabilities	**(2,425,373)**	(4,058,387)	**(129,362)**	–	**(2,152,659)**	(615,392)	**(265,442)**	(411,474)	**(756,530)**	**(304,884)**
	351,363	(62,755)	**(117,057)**	–	**6,821**	419,156	**354,291**	310,594	**176,155**	62
Non-current										
Assets	**3,527**	610	**321,523**	–	**9,037**	439	**–**	–	**104**	78
Liabilities	**–**	–	**–**	–	**–**	(291,390)	**(242,316)**	–	**(182,155)**	–
	3,527	610	**321,523**	–	**9,037**	(290,951)	**(242,316)**	–	**(182,051)**	78
Net assets/(liabilities)	**354,890**	(62,145)	**204,466**	–	**15,858**	128,205	**111,975**	310,594	**(5,896)**	140
Accumulated non-controlling interests	**70,978**	(12,429)	**61,340**	–	**4,757**	12,821	**24,635**	24,816	**(2,889)**	69

Summarised statement of profit or loss and other comprehensive income

	Nanning Jucheng For the year ended 31 December		Nanning Mingan For the year ended 31 December		Xuzhou Yucheng For the year ended 31 December		Xuzhou Jianyu For the year ended 31 December		Zhongshan Tianyu For the year ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**2,342,767**	766,222	**–**	–	**–**	–	**–**	–	**–**	–
Profit/(loss) before income tax	**595,849**	(16,606)	**(661)**	–	**(23,319)**	(24,350)	**(618)**	(906)	**(6,036)**	(860)
Income tax credit/(expense)	**(185,734)**	(12,305)	**–**	–	**6,651**	1,922	**–**	–	**–**	–
Profit/(loss) after tax and total comprehensive income	**410,115**	(28,911)	**(661)**	–	**(16,668)**	(22,428)	**(618)**	(906)	**(6,036)**	(860)
Profit/(loss) allocated to non-controlling interests	**82,023**	(5,781)	**(198)**	–	**(5,000)**	(2,243)	**136**	(72)	**(2,958)**	(421)
Dividends paid to non-controlling interests	**–**	(4,601)	**–**	–	**–**	–	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

51. PRINCIPAL SUBSIDIARIES (continued)

Notes: (continued)

(c) Summarised financial information on subsidiaries with material non-controlling interests (continued)

Summarised statement of cash flows

	Nanning Jucheng For the year ended 31 December		Nanning Mingan For the year ended 31 December		Xuzhou Yucheng For the year ended 31 December		Xuzhou Jianyu For the year ended 31 December		Zhongshan Tianyu For the year ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities										
Cash generated from(used in)/ from operations	**182,703**	(593,212)	**(40,416)**	–	**738,509**	69,688	**104,181**	(631,395)	**(199,534)**	**(304,072)**
Income tax paid	**(27,474)**	(4,929)	**–**	–	**(50,519)**	(10,907)	**–**	–	**(1,427)**	–
Other borrowing costs paid	**–**	–	**–**	–	**(6,720)**	–	**(6,720)**	–	**–**	–
Interest paid	**–**	–	**–**	–	**3,430**	(3,986)	**(19,211)**	–	**–**	–
Net cash from/(used in) from operating activities	**155,229**	(598,141)	**(40,416)**	–	**684,700**	54,795	**78,250**	(631,395)	**(200,961)**	(304,072)
Cash flows from investing activities										
Interest received	**3,055**	3,134	**20**	–	**693**	270	**60**	4	**53**	7
Purchase of property, plant and equipment	**–**	–	**(15,282)**	–	**(169)**	(528)	**–**	–	**(44)**	(82)
Increase in restricted and pledged deposits	**(57,612)**	46,902	**–**	–	**–**	–	**–**	–	**–**	–
Net cash from/(used in) investing activities	**(54,557)**	50,036	**(15,262)**	–	**524**	(258)	**60**	4	**9**	(75)
Cash flows from financing activities										
New bank and other borrowings	**–**	–	**–**	–	**–**	114,000	**241,400**	–	**182,154**	–
Repayment of bank and other borrowings	**–**	–	**–**	–	**(114,000)**	–	**–**	–	**–**	–
Advance from/(repayment to) intermediate/immediate holding company or fellow subsidiaries	**(63,292)**	592,770	**55,000**	–	**(534,132)**	80,083	**(374,838)**	698,258	**97,970**	304,884
Capital contribution from shareholders	**–**	–	**–**	–	**–**	–	**(11)**	–	**–**	1,000
Net cash from/(used in) financing activities	**(63,292)**	592,770	**55,000**	–	**(648,132)**	194,083	**(133,449)**	698,258	**280,124**	305,884
Net increase/(decrease) in cash and cash equivalents	**37,380**	44,665	**(678)**	–	**37,092**	248,620	**(55,139)**	66,867	**79,172**	1,737
Cash and cash equivalents at beginning of year/period	**114,400**	69,735	**5,255**	–	**248,920**	300	**66,867**	–	1,737	–
Cash and cash equivalents at the end of year	**151,780**	114,400	**4,577**	–	**286,012**	248,920	**11,728**	66,867	**80,909**	1,737

The information above is the amount before inter-company eliminations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

52. SUBSEQUENT EVENT

No reportable event after the reporting period was noted.

53. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 22 March 2019.

FIVE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group:

	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
For the year ended 31 December					
Revenue	**6,191,763**	4,080,514	1,507,971	306,321	157,870
Profit/(loss) before income tax	**1,644,102**	1,038,504	95,757	(208,483)	(168,326)
Income tax (expense)/credit	**(823,346)**	(491,232)	(9,518)	(23,781)	8,346
Profit/(loss) before income tax	**820,756**	547,272	86,239	(232,264)	(159,980)
Attributable to					
– Owners of the Company	**751,315**	550,460	92,918	(211,769)	(141,252)
– Non-controlling interests	**69,441**	(3,188)	(6,679)	(20,495)	(18,728)
	820,756	547,272	86,239	(232,264)	(159,980)
FINANCIAL POSITION					
At 31 December					
Total assets	**21,236,989**	16,252,454	13,920,633	10,357,027	6,924,966
Total liabilities	**(17,933,430)**	(13,873,827)	(12,120,665)	(8,848,022)	(5,189,352)
Net assets	**3,303,559**	2,378,627	1,799,968	1,509,005	1,735,614
Non-controlling interests	**(390,134)**	(52,598)	(34,859)	(5,065)	(25,560)
Equity attributable to owners of the Company	**2,913,425**	2,326,029	1,765,109	1,503,940	1,710,054

PARTICULARS OF PROPERTY PORTFOLIO

(A) Details of the Group's properties under development/held for sale at 31 December 2018 are as follows:

Location	Lease period	Site area *(sq.m.)*	Estimated project gross floor area (GFA) *(sq.m.)*	Project type	Effective equity interest % held	Expected completion year	Status	Estimated undelivered saleable GFA at 31.12.2018 *(sq.m.)*	Market value in existing state *RMB'000*	Market value attributable to the Group *RMB'000*	Carrying book value *RMB'000*	Carrying book value attributable to the Group *RMB'000*
1. Guangzhou Skyfame Byland: Skyfame Byland, Haizhu District, Guangzhou, Guangdong Province, China.	2009 to 2049/ 2059/ 2079	43,609	319,090	Residential/ Commercial	100%	2017	Completed	**28,000**	**2,060,000** *(Note 1)*	**2,060,000** *(Note 2)*	600,899	600,899
2. Zhongshan Skyfame Rainbow: Rainbow planning area, West District, Zhongshan, Guangdong Province, China	2003 to 2073	35,389	105.077	Residential/ Ancillary commercial	51%	2020	Construction in progress	88,000	886,000 *(Note 1)*	451,900	811,544	413,887
3. Nanning Skyfame Garden: Liangxing Road, Wuxiang New District, Nanning, Guangxi Zhuang Autonomous District, China	2014 to 2054/ 2084	231,563	1,212,296	Residential/ Ancillary commercial	80%	2016 to 2018	Completed	475,000	3,079,000 *(Note 1)*	2,463,200	2,023,381	1,618,705
4. Nanning Skyfame ASEAN Maker Town: North of Wuxiang Avenue, Wuxiang New District, Nanning, Guangxi Zhuang Autonomous District, China	2015 to 2055/ 2065/ 2085	194,221	1,319,137	Complex	100%	2018 to 2024	Completed/ Construction in progress	910,000	5,412,000 *(Note 1)*	5,412,000	2,227,274	2,227,274
5. Xuzhou Skyfame Time City: Quanshan District, Xuzhou, Jiangsu Province, China	2016 to 2056/ 2086	172,764	468,298	Residential/ Ancillary commercial	70%	2019 to 2020	Construction in progress	386,000	1,343,000 *(Note 1)*	940,100	858,494	600,946
6. Xuzhou Skyfame Elegance Garden: Quanshan District, Xuzhou, Jiangsu Province, China	2017 to 2057/ 2087	73,823	204,568	Residential/ Ancillary commercial	78%	2021 to 2022	Construction in progress	164,000	560,000 *(Note 1)*	436.800	562,458	438,717
7. Chongqing Project: The junction of Tenglong Da Road and Chaotianmen Yangtze River Bridge, Danzishi, Nanan District, Chongqing, China	2014 to 2054/ 2064	219,336	Phase 1: 312,542 Phase 2: 866,202	Complex	100%	2017 to 2023	Completed/ Construction in progress	Phase 1: 87,000 Phase 2: 680,000	4,302,000 *(Note 1)*	4,302,000	4,271,747	4,271,747
8. Kunming Anning Linxi Valley: Linxi Valley of Phase 1, Anhua area of the Taiping New City District, Anning, Kunming, Yunnan Province, China	2015 to 2054/55 and 2084/85	190,836	296,162	Villa/ Residential/ Ancillary commercial	40%	2020 to 2021	Construction in progress	253,000	352,000 *(Note 1)*	140,800	342,570	137,028
		1,161,541	5,103,372					3,071,000	17,994,000	16,206,800	11,698,367	10,309,203

PARTICULARS OF PROPERTY PORTFOLIO

Location	Lease period	Site area (sq.m.)	Gross floor area (GFA) (sq.m.)	Usage	Effective equity interest % held	Expected completion year	Status	Market value in existing state RMB'000	Market value attributable to the Group RMB'000
(B) Details of the Group's investment properties at 31 December 2018 are as follows:									
1. Apartments on Chongqing Skyfame Smart City, of Phase 2, Danzishi, Nanan District, Chongqing, China	2014 to 2054		248,800	Commercial/ Serviced apartment	100%	2023	Construction in progress	**1,215,000** *(Note 1)*	**1,215,000**
2. Block A1, Skyfame Byland, Haizhu District, Guangzhou, Guangdong Province, China	2009 to 2049		9,475	Hotel/ Serviced apartment	100%	2019	Under final inspection for completion	**520,000** *(Note 1)*	**520,000**
3. 800 Car parking spaces on LG1 to LG3, Skyfame Byland, Haizhu District, Guangzhou, Guangdong Province, China	2009 to 2049		9,600	Car parking	100%			**520,000** *(Note 1)*	**520,000**
4. Retail units on 2/F, 4/F and 5/F, Tianyu Garden Phase 2, 136 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, China	2000 to 2040		17,343	Office/ Retail	100%			**469,000** *(Note 1)*	**469,000**
5. Office units on 9/F, 10/F and 11/F of HNA City Square, 365 Tianhe North Road, Tianhe District, Guangzhou, Guangdong Province, China	2005 to 2055		1,498	Office	100%			**51.700** *(Note 1)*	**51.700**
6. Unit 02-04, 14th Floor Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	1928 to 2027		577	Office	100%			**131,467** *(Note 3)*	**131,467**
			287,293					**2,907,167**	**2,907,167**
(C) Details of the Group's leasehold land and building at 31 December 2018 are as follows:									
1. Nanning Mingan Hospital: 15 Xinliang Road, Liangqing District, Nanning, Guangxi Zhuang Autonomous Region, China	2015 to 2065	80.002	107,802	Hospital	70%	2020	Construction in progress	**407,000** *(Note 1)*	**284,900**
2. Office units on 32/F & 33/F of HNA Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, China	2001 to 2051		4,126	Office	100%			**161,000** *(Note 1)*	**161,000**
3. Retail units on 6/F, Tianyu Garden Phase 2, 138-146 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, China	2000 to 2040		2,448	Office/ Retail	100%			**46,000** *(Note 1)*	**46,000**
4. 15/F., Block 1, Chongqing Skyfame Smart City of phase 1, Danzishi, Nanan District, Chongqing, China	2014 to 2054		933	Office	100%			**12,000** *(Note 1)*	**12,000**
5. Units 01 and 05 of 14th Floor, and 2 Car Parking Spaces (Nos. 307 and 308), Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	1928 to 2027		770	Office/ Car parking	100%			**180,460** *(Note 3)*	**180,460**
			116,079					**806,460**	**684,360**
								21,707,627	**19,798,327**

Notes:

1. The properties under development/held for sales and completed properties were revalued on an open market value basis by an independent firm of professional valuers, Cushman & Wakefield International Properties Advisers (Guangzhou) Co., Ltd., Chartered Surveyors, as at 31 December 2018. Valuation of properties under development is based on the assumptions that the properties will be developed and completed in accordance with the Group's latest development proposal, and that all consents, approvals and licences from relevant government authorities have been obtained without onerous condition or delay.

2. The open market value has already reflected the entitlement of 28% interest over the completed properties in the development by a Chinese co-operative joint venture partner.

3. The properties were revalued on an open market value basis by an independent firm of professional valuers, CBRE Limited, Chartered Surveyors, as at 31 December 2018.