ZHONGTIAN

ZHONGTIAN INTERNATIONAL LIMITED
中天國際控股有限公司*

2018 ANNUAL REPORT

(incorporated in the Cayman Islands with limited liability) | (Stock Code: 02379) | * for identification purposes only

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

CHEN Dezhao *(Chairman)*
CHEN Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIU Jin Lu
CHAN Chak Kwan
CUI Haitao (appointed on 28 February 2018)

COMPANY SECRETARY

TAI Man Hin, Tony *(CPA)*

AUDIT COMMITTEE

CUI Haitao *(Chairman)* (appointed on 28 February 2018)
CHAN Chak Kwan
LIU Jin Lu

REMUNERATION COMMITTEE

LIU Jin Lu *(Chairman)* (appointed on 25 May 2018)
CHEN Dezhao
CHAN Chak Kwan
CUI Haitao (appointed on 28 February 2018)

NOMINATION COMMITTEE

CHEN Dezhao *(Chairman)*
CHAN Chak Kwan
CUI Haitao (appointed on 28 February 2018)

HONG KONG LEGAL ADVISORS

Gallant

AUTHORISED REPRESENTATIVES

CHEN Dezhao
CHEN Jun

STOCK CODE

02379

COMPANY'S WEBSITE

www.irasia.com/listco/hk/zhongtian

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1603, 16/F
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29 Queen's Road Central
Hong Kong

AUDITOR

Crowe (HK) CPA Limited

PRINCIPAL BANKERS

China Construction Bank
No.3 branch, Shinan District, Qingdao
Hua Xia Bank
Nanjing Road Sub branch Qingdao
The Hongkong and Shanghai Banking Corporation Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
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183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

REGISTERED OFFICE

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th Floor, Block C
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No. 38 Shandongtou Road
Laoshan District
Qingdao City
Shandong Province
The People's Republic of China

CHAIRMAN'S STATEMENT

We shall strive forward for more glorious achievements!

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Zhongtian International Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**"), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December 2018 (the "**Year**").

Throughout the year of 2018, the macroeconomic situation in China was eye-catching. The RMB exchange rate first stabilized and then depreciated. Affected by the Sino-US trade war and with the strong rebound of the US dollar index in late April, RMB continued to depreciate under pressure. The macroeconomic environment for real estate policies became more and more complicated. While the financial and fiscal policies were "loosening", the real estate policies remained "tight".

In the Year, the Group was principally engaged in the leasing of commercial properties, generating rental revenue of approximately RMB37,969,000, down by 4.1% as compared to 2017.

The property of Qingdao Zhongtian Software Park Company Limited, a subsidiary of the Company, is located at Jinjialing Financial Zone of Laoshan District, Qingdao City. According to the relevant data, as the core region, pilot region and demonstration region of Qingdao's pilot district for wealth management and financial comprehensive reformation, in 2018, 152 financial enterprises and the like were settled down in Jinjialing, with the total number reaching 802 cumulatively, covering 20 financial business segments. Large legal person financial institutions, fund subscription scale and tax revenue from the financial industry had accounted for 75%, 90% and 49% of Qingdao respectively, demonstrating its initial aggregation effect. The rental market for offices in the district continued to be robust. In the long run, the office property owned by the Company has a great potential for appreciation and development.

In 2018, the project land at No. 877 Huihai Road, owned by Qingdao Zhongtian Enterprise Development Company Limited, a subsidiary of the Company, began to unveil its value. The ancillary facilities surrounding the project land are under comprehensive construction, with the construction of the Qingdao Hongdao High-Speed Rail Station, which is 1.5 kilometers from the project, basically completed. Currently, 12 railway lines have already been officially put into operation. Meanwhile, the construction of the main station lobby with a gross floor area of approximately 70,000 square meters has basically been completed. The ancillary facilities surrounding the on and off-ramps and the squares on the northern and southern ends are under active construction. Hongdao Station is expected to officially open for passenger service in September 2019 which by then will become the largest railway station in Qingdao.

At the same time, the Hetao Station of Qingdao Metro Line 8, adjacent to the south of the land, is also under intense construction. Qingdao Metro Line 8, with a total length of approximately 60 kilometers, starts from Jiaozhou North Station in the north, and extends to the May-fourth Square in the city south surpassing through Qingdao New Airport and Hongdao High-tech Zone. It is one of the first batch of preferential projects of old and new economy in Shandong Province and is the only metro-line under the urban subway line system connecting Jiaozhou New Airport.

CHAIRMAN'S STATEMENT

The Board remained confident and optimistic of the future prospect of the Group, and would also promote corporate governance, business expansion and personnel training. Looking into 2019, the Group will definitely create a more positive prospect.

Zhongtian International Limited
Chen Dezhao
Chairman

29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the Year, the Group was principally engaged in two business segments, namely financial service and property.

Financial service

On 17 July 2017, Qingdao Zhongtian Enterprises Development Co., Ltd. ("**Qingdao Zhongtian**"), an indirect wholly-owned subsidiary of the Company, entered into a construction and procurement agreement with Qingdao Ruiding Energy Co., Ltd.* (青島瑞鼎能源有限公司) ("**Ruiding**") and Qingdao Ruikangjie New Energy Material Co., Ltd.* (青島瑞康捷新能源材料有限公司) ("**Ruikangjie**"), two independent third parties. On 26 March 2018, a supplemental agreement was entered into between Qingdao Zhongtian and Ruiding under which the substance of the arrangement was clarified. The period for the provision of financial services by Qingdao Zhongtian to Ruiding is 10 years commencing from 17 July 2017. Pursuant to the aforesaid agreements, Qingdao Zhongtian obtained, on a back-to-back basis, a project loan for Ruiding from a designated trust scheme of RMB600 million which, at the instructions of Ruiding, were transferred to Ruikangjie as Ruiding's advanced payments for purchase of materials and equipment from Ruikangjie, in connection with the construction of the natural gas project of Ruiding. Ruiding shall bear all the obligations for the repayment of the project loan, together with the interests accrued and accruing thereon, that was obtained on its behalf from the trust scheme and shall make repayment to Qingdao Zhongtian in relation to the aforesaid advanced payments on 31 May 2020, 31 May 2021 and 31 May 2022, with each repayment being not less than RMB200,000,000, together with the interest accruing on the aforesaid project loan. This business segment is expected to contribute stable long-term revenue to the Group.

Property

After the renovation of its investment properties in the year of 2010 and further acquisition of new office premises in the year of 2016, the Group leased its commercial properties to generate rental revenue, and there was a comparatively stable and growing revenue generated from the property segment. Taking into account the improvements in local investment environment in the PRC and the favourable conditions in its commercial property market, the Board will continue to pay attention to the development of this segment and to identify and seek suitable opportunities for further investments.

As at 31 December 2018, the details of the investment properties of the Group are as follows:

(a) Completed Properties

Particulars	Location	Total approximate gross floor area	Approximate occupancy rate
Composite building with 11 commercial units, 24 office units and an underground storage unit	Laoshan District, Qingdao City, the PRC	12,499 sq.m.	99.9% during the Year; 7.8% since 1 January 2019
244 underground car parking spaces within a composite building	Laoshan District, Qingdao City, the PRC	10,250 sq.m.	105 spaces leasing out at monthly basis and 139 spaces leasing out at hourly basis during the Year; all spaces leasing out at hourly basis since 1 January 2019
A storey in a commercial building	Shinan District, Qingdao City, the PRC	1,511 sq.m.	64%
An office unit	Shinan District, Qingdao City, the PRC	365 sq.m.	100%

All the commercial and office units in the composite building located at Laoshan District, Qingdao City, the PRC, were leased out up to 31 December 2018. The lease agreement, entered into with a tenant in October 2015 by Zhongtian Software Park Co., Ltd., an indirect wholly subsidiary of the Company, expired on 31 December 2018. An underground storage with gross floor area of 14.82 sq.m. has not been rented out. 244 underground car parking spaces in the composite building have been rented out on an hourly basis to tenants and visitors to the composite building.

Most of the units in the storey in a commercial building located at the Shinan District, Qingdao City, the PRC have been leased out. Lease agreements have been entered into with the tenants by the Group with an initial period ranging from 3 to 10 years.

(b) Land under Development

The land of the Company which is under development is situated within the Chengyang District in Qingdao City, the PRC, with a site area of approximately 91,165 sq.m. which was planned as to 66% and 34% of its gross floor area for (i) wholesale and retail use and (ii) business and financial use, respectively. The management of the Company is still following up with the local government on the recent changes in the development plan around the district area which has been newly planned by the local government mainly for residential use. A concrete plan of development of the land will be filed for domestic government's approval once the overall plan has been confirmed.

Taking into account the improvements in local investment environment and the favourable conditions in the local commercial property market, the Board will continue to pay attention to the development of this segment and seek suitable opportunities for further investments. The Group is also critically assessing the impacts and opportunities of the local government's recent changes in the land use around the district area.

FINANCIAL REVIEW

Turnover

The Group's total turnover for the Year was approximately RMB45,705,000 (2017: approximately RMB43,429,000), representing an increase of approximately 5.2% as compared to the year of 2017. This was mainly attributable to the increase in rental income from the property segment and the service income from the financial service segment.

Other income and other net gains

The Group's other income and other net gains for the year were approximately RMB33,010,000 (2017: RMB34,509,000), representing a decrease of approximately 4.3% as compared to the year of 2017. This was mainly attributable to the increase in the interest income on a long-term loan receivable, which was lent to a natural gas operator in the second half of 2017, offset by the one-time income from the recovery of proceed from sold properties in 2017.

Fair value (loss)/gain on investment properties

The Group's fair value loss on investment properties for the year was approximately RMB13,304,000 (2017: fair value gain of approximately RMB99,759,000) as further detailed in note 13 to the consolidated financial statements.

General and administrative expenses

The Group's administrative expenses for the Year were approximately RMB34,669,000 (2017: approximately RMB21,715,000), representing an increase of approximately 60% as compared to the year of 2017. This was mainly attributable to property tax and other additional levies which effects were partially offset by the reversal of the impairment of trade receivable during the Year.

Finance costs

The Group's finance costs for the Year were approximately RMB48,238,000 (2017: RMB40,130,000), representing an increase of approximately 20.2% as compared to the year of 2017, mainly attributable to the full year effect of interests on the long-term loan payable, which was borrowed from the trust scheme in the second half of 2017, for the current year.

Net Loss

During the Year, the Group recorded a net loss of approximately RMB45,562,000 (2017: net profit of approximately RMB83,481,000).

BUSINESS REVIEW

Analysis by business segments

During the Year, the Group's principal source of income was derived from the property segment, which accounted for approximately 83.1% of the total turnover of the Group and the financial service segment contributed the remaining 16.9%.

During the Year, all of the Group's income was derived from Shandong Province, the PRC, and accounted for 100% of the Group's total turnover.

FUTURE OUTLOOK

Commercial properties of the Group have commenced to generate stable and growing rental revenue and became a major source of income for the Group. On the other hand, the new financial service segment involving clean energy will be the new growth factor to generate revenue for the Group. Besides, the Group has been actively conducting research, identifying and exploring local property business in the PRC and other business domains with great potential growth in order to achieve a diversification of income source of the Group in the future.

DEBTS

As at 31 December 2018, the Group had secured bank and other borrowings of approximately RMB804,150,000 (2017: approximately RMB840,450,000). For details of the secured bank and other borrowings, please refer to note 22 to the consolidated financial statements in this report.

Save as disclosed above, the Group had no other debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease and mortgages.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirement represents mainly working capital in relation to the businesses in relation to the property segment and financial service segment. The Group financed its operations and capital expenditure from its internal resources and borrowings.

As at 31 December 2018, the Group had cash and bank balances of approximately RMB15,465,000 (31 December 2017: approximately RMB25,341,000), approximately 99% and 1% of which were held in RMB and HK$, respectively. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 235.5% (31 December 2017: 217.6%).

During the Year, the Group did not employ any material financial instrument for hedging purposes.

As at 31 December 2018, the Group's current liabilities exceeded current assets by approximately RMB97,200,000. This condition indicates the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the aforesaid conditions, the directors of the Company consider that the Group will be able to operate as a going concern in the foreseeable future, after taking into consideration of:

(a) continuing financial support from the ultimate controlling party of the Company, Mr. Chen Jun who has provided an irrevocable undertaking to the Group by providing adequate funds to the Group to enable it to meet its debts as and when they fall due and to carry on its business as a going concern in the foreseeable future; and

(b) additional new credit facilities being currently in serious discussions between the Group and certain financial institutions.

The directors of the Company have prepared a cash flow forecast of the Group for a period covered not less than twelve months from date of approval of the consolidated financial statements. Based on the forecast which has taken into account the Group's above measures taken to date, the directors of the Company are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of approval of the consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and the future capital expenditure requirements. Accordingly, the directors of the Company are satisfied with the Group's ability to continue as a going concern.

FOREIGN EXCHANGE

Since most of the revenue generated by the Group are in RMB and most of its assets and liabilities are denominated in RMB, the Directors are of the opinion that the Group will not have material foreign exchange exposures. The Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates. The Group did not adopt any currency hedging policy or other hedging instruments during the Year.

SUBSTANTIAL ACQUISITION AND DISPOSAL

There was no material acquisition and disposal of subsidiaries and associated companies by the Group during the Year.

CHARGE ON ASSETS

As at 31 December 2018, the investment properties with fair value of approximately RMB787,040,000 have been pledged for bank and other borrowings of the Group. At 31 December 2017, the leasehold land with carrying amount of approximately RMB3,550,000, the investment properties with fair value of approximately RMB790,900,000 and the building with carrying amount of approximately RMB4,519,000 have been pledged for bank and other borrowings.

Save as disclosed above, the Group had no other material pledge of assets as at 31 December 2018.

LITIGATION

During the year ended 31 December 2018, a former director of the Company who resigned on 2 November 2017, submitted a claim against the Company for a sum of approximately HK$2,030,000 for alleged unpaid salaries, which was disputed by the Group. After the trial conducted at Labour Tribunal during the year, the adjudicated amount of his unpaid salaries was HK$110,790.25 (equivalent to approximately RMB92,232), which was same as the amount accrued for in the consolidated financial statements of the Company for the year ended 31 December 2017 and was fully settled by the Group during the year ended 31 December 2018. The directors of the Company considered that there is no further exposure arising from this litigation instituted by the former director of the Company.

CONTINGENCIES

(a) Qingdao Zhongtian Software Park Co., Ltd ("**Software Park**"), an indirect wholly-owned subsidiary of the Company, has a dispute with its tenant, Beijing Hengyuan Lizhen Network Technology Co., Ltd.* (北京亨元利貞網絡科技有限公司) (formerly known as Jinku Business Investment Co., Ltd.* (錦庫商業投資有限公司)) ("**Hengyuan Lizhen**") which leased certain premises of the Group located at No.38 Shandongtou Road, Laoshan District, Qingdao, the PRC under a lease contract dated 26 October 2015 entered into between Hengyuan Lizhen (as a tenant) and Software Park (as a landlord). After 1 April 2016 when the business tax was replaced by value-added tax ("**VAT**") in the PRC, under the applicable VAT rules and regulations, Software Park can opt to pay the VAT on rental income generating from the leased properties, which were completed before 30 April 2016, at the applicable rate of 5%. However, Hengyuan Lizhen insists that Software Park shall issue the VAT invoices on the rentals at the newly applicable rate of 11% as for those properties completed after 1 May 2016. Due to the fact that Software Park and Hengyuan Lizhen have been in disagreement as to the type of VAT invoices regarding the rental income generated after 1 May 2016, Software Park has not yet issued the relevant VAT invoice to Hengyuan Lizhen and therefore, Software Park has not yet paid the relevant VAT and property taxes arising from the rental income received and receivable from Hengyuan Lizhen.

In the opinion of the Directors of the Company, adequate provisions for VAT and property tax and other levies arising from rental income received and receivable from Hengyuan Lizhen have been made in the consolidated financial statements for the year ended 31 December 2018.

In addition, during the year, Qingdao Tax Bureau conducted an investigation on the tax matters relating the leasing business of Software Park. Based on the tax investigation findings issued by Qingdao Tax Bureau on 21 January 2019, Software Park was required to pay a total sum of RMB639,159.02 which was provided for in the consolidated financial statements of the Company for the year ended 31 December 2018 and was paid subsequently by Software Park.

(b) At 31 December 2018, Hengyuan Lizhen owed Software Park for outstanding rentals totaling RMB29,575,508.95. Software Park has been in negotiation, for imminent settlement, with Hengyuan Lizhen and Hengyuan Lizhen has never disputed the accuracy of the outstanding rentals payable to Software Park. As security for the settlement of the outstanding rentals by Hengyuan Lizhen, on 18 March 2019, Software Park and a hotel company, an indirect wholly-owned subsidiary of Hengyuan Lizhen, entered into a guarantee contract under which the hotel company has provided an irrevocable undertaking in favour of Software Park that the hotel company shall use all its assets, including its hotel properties, to honour its undertaking obligations for the repayment of the rentals payable to Software Park. Based on the information made available to Software Park, the hotel company as a guarantor has net assets which exceed the outstanding rentals payable by Hengyuan Lizhen to Software Park. In the opinion of the Directors of the Company, no impairment on the outstanding rentals receivable from Hengyuan Lizhen is considered necessary at 31 December 2018.

Apart from the above, as at 31 December 2018, the Group had no other material contingent liabilities (2017: Nil).

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2018 and 2017 were as follows:

	2018	2017
	RMB'000	RMB'000
Authorised but not contracted for	**182,754**	33,038
Contracted but not provided for	**2,611**	107,917

As at 31 December 2018 and 2017, the Group had authorised but not contracted for and contracted but not provided for capital commitments mainly for construction costs relating to the land held as investment property under development.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 25 employees (31 December 2017: 27 employees). Most of the Group's employees were based in the head office of the Group in Qingdao City of Shandong Province, the PRC.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses may be awarded to the employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the Year was approximately RMB3,798,000 (31 December 2017: approximately RMB2,803,000). The increase in staff cost in the Year as compared with 2017 was mainly attributable to the increase in remuneration of the Directors.

FINAL DIVIDEND

The Directors do not recommend payment of any final dividend for the Year (2017: Nil).

REPORT OF THE DIRECTORS

The Board presents their report together with the audited financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 23 to the consolidated financial statements on page 122 of the annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income. The Board does not recommend the payment of any dividend for the Year.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the Year are set out in note 14 to the consolidated financial statements on page 110 of the annual report.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 24 to the consolidated financial statements on page 123 of the annual report.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 46 of the annual report.

As at 31 December 2018, the Company had reserves available for distribution to shareholders of approximately RMB231,727,000 (2017: RMB235,117,000).

BUSINESS REVIEW

Further discussion and analysis of the business of the Company, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the business of the Group, can be found in the section headed "Management Discussion and Analysis" as set out on pages 5 to 11 of the annual report. These discussions form part of this report of the Directors.

ENVIRONMENTAL POLICIES

The Group is devoted to promoting and maintaining the environmental and social sustainable development of the regions where it operates. As a responsible enterprise, the Group is in compliance with all the material laws and regulations in terms of the environmentally friendliness, health and safety, adopts effective measures, conserves energy and reduces waste.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Our establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the Year and up to the date of this report, as far as the Company is concerned, except for the breach of Listing Rules 13.13 and 13.15 regarding a major transaction of financial assistance as disclosed in the announcement of the Company dated 25 March 2018, there was no material breach or non-compliance with applicable laws and regulations by the Group that has a significant impact on business and operations of the Group. The Directors consider such non-compliance has no significant impact on the Group's business and will make further announcement when necessary.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors recognize that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners and improving the quality of services to the customers.

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and its workers are provided with regular training courses on sales and marketing. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 137 of the annual report.

DIRECTORS

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

Executive Directors

Mr. Chen Dezhao
Mr. Chen Jun

Independent non-executive Directors

Mr. Cui Haitao (appointed on 28 February 2018)
Mr. Liu Jin Lu
Ms. Chan Chak Kwan
Mr. Chen Wen Ping (retired on 25 May 2018)

Mr. Chen Dezhao and Mr. Liu Jin Lu will retire from office as Directors at the forthcoming annual general meeting of the Company.

Mr. Chen Dezhao and Mr. Liu Jin Lu, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles of Association of the Company (the "**Articles**").

DIRECTORS' SERVICE CONTRACT

Mr. Chen Dezhao, an executive Director, has entered into a service contract on 25 May 2018 with the Company for a term of one year and ending at the conclusion of the forthcoming annual general meeting of the Company.

Mr. Chen Jun, an executive Director, has entered into a service contract on 25 May 2018 with the Company for a term of one year and ending at the conclusion of the forthcoming annual general meeting of the Company.

The three independent non-executive Directors, namely Ms. Chan Chak Kwan, Mr. Cui Haitao and Mr. Liu Jin Lu, have respectively entered into a service contract with the Company for a term of one year commencing on 25 May 2018 subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Directors

Executive Directors

Mr. Chen Dezhao (陳德昭) ("Mr. Chen DZ"), aged 77, has extensive experience in human resources, management and administration. Mr. Chen DZ was enlisted to serve in the army in August 1963 and he left the army in December 1982. From 1982 to 2002, he took up various important positions in Shandong Province Branch, the Bank of China (中國銀行山東省分行) including the chief of the department of human resources, vice chairman of the bank association (公會副主席) and the director of the staff education and research committee of the China financial system (中國金融系統職工教育研究會理事).

In addition, Mr. Chen DZ has been qualified as an economist and as a senior government affair advisor (高級政工師) since 10 December 1990 and 1 December 1996 respectively by the Bank of China. Mr. Chen DZ was appointed as an executive Director of the Company on 29 May 2015. Mr. Chen DZ was appointed as an executive director of Qingdao Supu E-business Co. Ltd. (青島速普電子商務股份有限公司) (see below) on 4 July 2018. He is the father of Mr. Chen Jun.

Mr. Chen Jun (陳軍) , aged 46, is a director, general manager and legal representative of each of Qingdao Zhongtianyuan Network Technology Limited* (青島中天源網路科技有限公司) (formerly known as Qingdao Hai Yi Commercial Management Company Limited (青島海逸商業管理有限公司)), Success Advantage Limited (成益有限公司), Qingdao Zhongtian Software Park Co., Ltd. (青島中天軟件園有限公司), Qingdao Zhongtian Enterprise Development Co., Ltd. (青島中天企業發展有限公司), and Qingdao Hai Yi Investment and Consultancy Co. Ltd. (青島海逸投資諮詢有限公司), all of which are wholly-owned subsidiaries of the Company. Mr. Chen Jun was appointed, on 4 July 2018, as the legal representative and an executive director of Qingdao Supu E-business Co. Ltd. (青島速普電子商務股份有限公司), whose shares are traded on the platform of New Over-The-Counter Market in the PRC, and Mr. Chen Jun is interested in 87.54% of the issued shares of Qingdao Supu E-business Co. Ltd. (青島速普電子商務股份有限公司) since November 2017.

Mr. Chen Jun was graduated from the People's Republic of China's Marine and Submarine College (中國人民解放軍海軍潛艇學院). Mr. Chen Jun is also the visiting professor and instructor of Master students of Qingdao Technological University (青島理工大學), School of Civil Engineering. Mr. Chen Jun has over 16 years of experience in corporate planning and management. Mr. Chen Jun was appointed as an executive Director of the Company on 2 November 2016. He is the son of Mr. Chen DZ.

Independent non-executive Directors

Mr. Cui Haitao (崔海濤) ("Mr. Cui"), aged 47, graduated from the Shandong Foreign Trade Vocational College (山東外貿學院) in 1993, majoring in finance and accounting. He obtained his certified public accountant qualification from the Shandong Institute of Certified Public Accountants (山東省註冊會計師協會) in 2003. He has over 20 years of accounting and finance experience. Since 2002, Mr. Cui has been a department head of Qingdao Zhongxunzhitong Limited Liability Accounting Firm* (青島仲勳志同有限責任會計師事務所).

Mr. Liu Jin Lu (劉金祿) ("Mr. Liu"), aged 58, is an independent non-executive Director and was graduated from the Beijing Sport University (北京體育大學). Mr. Liu was the deputy head of 北京金鼎木製品廠 (Beijing Jinding Muzhipin Factory) from 1983 to 1998 and has been the general manager of 北京天頌三佳緣商貿中心 (Beijing Tiansong Sanjiayuan Commercial Centre) since 1998. Mr. Liu was appointed as an independent non-executive Director since 20 May 2010.

Ms. Chan Chak Kwan (陳澤群) ("Ms. Chan"), aged 53, was graduated from Wuhan University of Technology. She has been working at Fairly Capital Company since July 2004. Prior to joining Fairly Capital Company, she worked at the Beijing branch of China National Technical IMP & EXP Corp and JC Premier Capital Limited and was mainly responsible for reorganisation and investment projects of companies in the People's Republic of China (the "**PRC**"). Ms. Chan has over 20 years of management experience in the financial and corporate sector in both the PRC and Hong Kong. She specializes in corporation business development for the PRC companies in support of their financing and listing. Due to Ms. Chan's years of experience in market development and corporate financial in the PRC, she has maintained a good relationship with foreign and domestic investors, investment banks, government departments and various advisory agencies. Ms. Chan is currently the chairlady of Hong Kong Association of Women Business Owners.

Save as disclosed above, there are no relationships among the members of the Board.

DIRECTORS' REMUNERATION

The Directors' fees are subject to the approval of the shareholders of the Company (the "**Shareholders**") at general meetings. Other emoluments are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group. In addition, the Directors' remuneration is reviewed by the remuneration committee of the Company (the "**Remuneration Committee**") annually. Details of the Director's remuneration are set out in note 10 of the consolidated financial statements on pages 102 to 103 of the annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, interests or short positions in the shares of the Company (the "**Shares**"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") are as follows:

Long position in Shares

Name of Directors	Capacity	Number of Shares interested/held	Approximate percentage of Shareholding
Chen Jun	Beneficial owner	5,525,000	1.35%
	Interest of a controlled corporation (Note 1)	108,042,781	26.34%
	Interest of a controlled corporation (Note 2)	124,000,000	30.23%

Notes:

(1) Fine Mean Investments Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Fine Mean Investments Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested on all the Shares held by Fine Mean Investments Limited for the purposes of the SFO.

(2) Vast Yield Holdings Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Vast Yield Holdings Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested on all the Shares held by Vast Yield Holdings Limited for the purposes of the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors nor 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 corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2018, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept pursuant to section 336 of the SFO:

Long position in Shares and underlying Shares of the Company

Name of substantial Shareholder	Capacity	Number of Shares interested/held	Approximate shareholding percentage
Fine Mean Investments Limited	Beneficial owner	108,042,781	26.34%
Vast Yield Holdings Limited	Beneficial owner	124,000,000	30.23%
Ms. Su Haiqing (Note 1)	Interest of spouse	237,567,781	57.91%
Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) (Note 2)	Security interest	232,042,781	56.57%
Zhongtai International Asset Management Limited (Note 3)	Security interest	232,042,781	56.57%

Notes:

(1) Ms. Su Haiqing is the spouse of Mr. Chen Jun. Under the SFO, Ms. Su Haiqing is deemed or taken to be interested in all the Shares in which Mr. Chen Jun has, or is deemed to have, an interest for the purpose of the SFO.

(2) According to the disclosure of interest notice filed by Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) on 23 January 2018, it had a security interest of 232,042,781 Shares.

(3) According to the disclosure of interest notice filed by Zhongtai International Asset Management Limited on 23 January 2018, it had a security interest of 232,042,781 Shares.

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any substantial Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" below, no Director during the Year had a beneficial interest, either direct or indirect, in any contract of significance (as defined in Appendix 16 to the Listing Rules) to which the Company, its holding company or any of its subsidiaries was a party at the end of the Year or at any time during the Year.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 167 of the Articles, every Director or other officer of the Company 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 thereto. In addition, the Company has maintained Directors' liability insurance coverage for the Directors during the Year.

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 or existed during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the Year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective associates to acquire such rights in any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2018 %	2017 %
Percentage of purchases:		
From the largest supplier	**N/A**	N/A
From the five largest suppliers	**N/A**	N/A
Percentage of turnover:		
From the largest customer	**79.8%**	88.1%
From the five largest customers	**99.2%**	99.2%

None of the Directors, their associates or any Shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest customers nor suppliers.

Set out below are the details about the largest and the five largest customers of the Group for the year:

(a) Beijing Hengyuan Lizhen Network Technology Co., Ltd.* (北京亨元利貞網絡科技有限公司) (formerly known as Jinku Business Investment Co., Ltd.* (錦庫商業投資有限公司)) ("Hengyuan Lizhen") was the largest customer of the Group from which the Group earned rental income of approximately RMB36,494,000 (2017: RMB38,249,000) which accounts for 79.8% (2017: 88.1%) of the Group's revenue for the year ended 31 December 2018.

Hengyuan Lizhen has been ultimately owned and controlled by an independent third party individual, Mr. Shang ("Mr. Shang"). For the periods prior to 18 July 2018, Ms. Yam, being the spouse of Mr. Liu Jin Lu who is an independent non-executive director of the Company, held the entire registered capital of Hengyuan Lizhen as a nominee on trust of Mr. Shang under a trust agreement entered into between Ms. Yam and Mr. Shang in 2012. In addition, Mr. Liu Jin Lu was the supervisor of Hengyuan Lizhen but he did not participate in the management of Hengyuan Lizhen for the period from 20 October 2014 (date of appointment as supervisor) to 18 July 2018 (date of resignation as supervisor). The Company has sought a legal opinion from a PRC lawyer that, in respect of the shareholding and management of Hengyuan Lizhen, Ms. Yam, as a nominee holding the entire registered capital of Hengyuan Lizhen on trust of Mr. Shang under the trust agreement, shall only act according to the directions and instructions from Mr. Shang who shall be the ultimate controlling party and beneficial owner of Hengyuan Lizhen. Neither Hengyuan Lizhen nor Mr. Shang is a substantial shareholder of the Company or an employee of the Group since the inception of the lease agreement that was entered into, on 26 October 2015, between Hengyuan Lizhen and Qingdao Zhongtian Software Park Co., Ltd. ("Zhongtian Software Park") which was acquired by the Company in March 2016.

(b) Qingdao Ruiding Energy Co., Ltd ("Ruiding"), an independent natural gas operator which holds a concession right for the construction of natural gas pipeline networks and for distribution of natural gas in the designated areas in Qingdao, from which the Group earned a revenue from provision of financial services amounting to approximately RMB7,736,000 (2017: RMB3,846,000) which accounts for 16.9% (2017: 8.9%) of the Group's revenue for the year ended 31 December 2018.

(c) The remaining three of the five largest customers contributed revenue in aggregate approximately RMB1,141,000 (2017: RMB993,000) which accounts for 2.5% (2017: 2.2%) of the Group's revenue for the year ended 31 December 2018.

None of the substantial shareholders, directors of the Company or senior management of the Group has any beneficiary interest in the above customers, and none of the above customers or their beneficial owners holds 5% or more of the shares of the Company, and none of their ultimate beneficial owners are employees of the Group during the two years ended 31 December 2018 and 2017. In the opinion of the directors of the Company, the largest customer and the other four largest customers are not related parties of the Group.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2018, the Directors were not aware of any business or interest of the Directors and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this report.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre emptive rights under the Articles and the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions

The Group has entered into a leasing agreement (the "**Leasing Agreement**") with an associate of Mr. Chen Jun, a controlling shareholder of the Company. The term of the Leasing Agreement is from 1 January 2018 to 31 December 2018. Accordingly, the Leasing Agreement constituted a continuing connected transaction. Pursuant to the Leasing Agreement, a vehicle would be leased to the Group for its business purpose. The Leasing Agreement was fully exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements as they were on normal commercial terms and all of the applicable ratios were, in aggregate, on an annual basis, less than 5% and the annual consideration was less than HK$3,000,000. During the year, the rental expenses paid and payable under the Leasing Agreement amounted to approximately RMB141,000 (2017: RMB141,000) as disclosed in note 30(d) to the consolidated financial statement on page 129 of the annual report.

The Directors consider that those material related party transactions disclosed in note 30 to the financial statements did not fall or were fully exempted under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules, and hence are not required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

The corporate governance practices of the Group are based on the principles and the code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the Code during the Year except for the following deviations:

Code Provision A.6.7 of the Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings. Code Provision E.1.2 of the Code also provides that the chairman of the Board should attend the annual general meeting. Further, it provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. In addition, the chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Ms. Chan Chak Kwan, Mr. Cui Haitao and Mr. Liu Jin Lu, each being an independent non-executive Director, and Mr. Chen Dezhao, an executive Director and the chairman of the Board, were unable to attend the annual general meeting of the Company held on 25 May 2018, respectively, due to other business commitments or unexpected engagements. Mr. Chen Jun, (an executive Director) took the chair at the aforesaid annual general meeting and he was of sufficient calibre and knowledge for answering questions at the annual general meeting.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the Code.

The details of Group's compliance with the Code is set out in the Corporate Governance Report from pages 23 to 34 of the annual report.

ANNUAL GENERAL MEETING AND BOOK CLOSURE

The annual general meeting of the Company will be held on 31 May 2019 at 10:30 a.m. at 3/F, Block C, Zhongtian Building, 38 Shandongtou Road, Laoshan District, Qingdao City, Shandong Province, the PRC.

The transfer books and the register of members of the Company will be closed from 28 May 2019 to 31 May 2019, both days inclusive. During such period, no Share transfers will be effected. In order to qualify for attending the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 27 May 2019.

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2018 and up to the date of this report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Crowe (HK) CPA Limited (formerly known as Crowe Horwath (HK) CPA Limited, "**Crowe**"). Crowe will retire as auditor at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re appointment. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Crowe as the auditor of the Company.

On behalf of the Board

Chen Dezhao
Chairman

Hong Kong, 29 March 2019

CORPORATE GOVERNANCE REPORT

The corporate governance practices of the Group are based on the principles and the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the Code during the Year except for the following deviations:

Code Provision A.6.7 of the Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings. Code Provision E.1.2 of the Code also provides that the chairman of the Board should attend the annual general meeting. Further, it provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. In addition, the chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Ms. Chan Chak Kwan, Mr. Cui Haitao and Mr. Liu Jin Lu, each being an independent non-executive Directors, and Mr. Chen Dezhao, an executive Director and the chairman of the Board, were unable to attend the annual general meeting of the Company held on 25 May 2018, respectively, due to other business commitments or unexpected engagements. Mr. Chen Jun an executive Director and who took the chair at the aforesaid annual general meeting of the Company, was of sufficient calibre and knowledge for answering questions at the general meeting.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the Code.

The key corporate governance practices of the Group are summarised as follows:

BOARD OF DIRECTORS

Composition

The Board includes two executive Directors and three independent non-executive Directors.

Executive Directors

Chen Dezhao *(Chairman)*
Chen Jun *(Chief Executive Officer)*

Independent Non-executive Directors

Liu Jin Lu
Chan Chak Kwan
Cui Haitao (appointed on 28 February 2018)
Chen Wen Ping (retired on 25 May 2018)

More than one third of the Board is independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of the Directors.

Save for Mr. Chen Dezhao is the father of Mr. Chen Jun, there is no financial, business, family or other material/relevant relationship among the members of the Board, in particular, between the Chairman of the Board and the Chief Executive Officer. The independent non-executive Directors, namely Ms. Chan Chak Kwan, Mr. Cui Haitao and Mr. Liu Jin Lu, have respectively entered into a service contract with the Company for a term of one year commencing on 25 May 2018. All the independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles.

At each annual general meeting, one third of the Directors are required to retire from office. Each Director shall retire from office once every three years. The Directors to retire in every year shall be those appointed by the Board during the Year and those who have been longest in office since their last election or re election. New Directors appointed by the Board during the Year shall retire and submit themselves for re election at the annual general meeting immediately following their appointments.

Mr. Chen Dezhao and Mr. Liu Jin Lu will retire from office as Directors at the forthcoming annual general meeting of the Company. Mr. Chen Dezhao and Mr. Liu Jin Lu, being eligible, offer themselves for re election pursuant to Article 87 of the Articles,.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the requirements of the Listing Rules. The Group considers all independent non-executive Directors to be independent in accordance with the Listing Rules.

Save as disclosed in the section headed "Directors' and Senior Management's Biographies" in this report, all members of the Board have no relationship with each others.

BOARD MEETINGS

The Board meets regularly. In addition to regular meetings, it meets as and when warranted by particular circumstances. A record of the Directors' attendance at the Board meetings and general meeting(s) are set out as follows:

	Attendance/ Number of Board Meetings	Attendance/ Number of General Meetings
Executive Directors		
Chen Dezhao *(Chairman)*	7/7	0/1
Chen Jun	7/7	1/1
Independent Non-executive Directors		
Liu Jin Lu	7/7	0/1
Cui Haitao (appointed on 28 February 2018)	6/6	0/1
Chan Chak Kwan	3/7	0/1
Chen Wen Ping (retired on 25 May 2018)	0/4	0/0

Board responsibilities and delegation

The Board is responsible to the Shareholders for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the annual development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system and supervising and managing management's performance.

Regarding our Group's corporate governance, during the Year, the Board had performed the duties following:

- reviewed the policies and practices on corporate governance of the Group and made recommendations;
- reviewed and monitored the training and continuous professional development of Directors and senior management;
- reviewed and monitored the Group's policies and practices on compliance with legal and regulatory requirements;
- reviewed and monitored the code of conduct applicable to the Directors and employees; and
- reviewed the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

CORPORATE GOVERNANCE REPORT

The Board delegates the day to day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Group. The Board gives clear directions to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Group by the management.

CHAIRMAN AND CHIEF EXECUTIVE

The Group understands that the role of the chairman of the Board and chief executive of the Company shall have clear division of responsibilities. The Group has appointed a separate chairman and chief executive officer of the Company since 2007. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Chen Dezhao, the Chairman, is responsible for the operation of the Board and the formulation of the Group's strategies and policies. Mr. Chen Jun, the chief executive officer of the Company, with the assistance of other members of the Board and senior management, is responsible for the management of the Group's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation. The chairman ensures that all Directors are properly briefed on issues arising at the Board meetings and receive adequate, complete and reliable information in a timely manner.

COMPANY SECRETARY

Mr. Tai Man Hin, Tony ("Mr. Tai"), *CPA*, an external service provider, has been engaged by the Company as its Company Secretary. His primary contact person at the Company is Mr. Chen Jun, the executive Director. During the Year, Mr. Tai has satisfied the requirements in respect of receiving professional trainings under Rule 3.29 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 – "Model Code for Securities Transactions by Directors of Listed Issuers" to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Specific enquiry has been made to all Directors and all Directors have confirmed that they had complied with such code of conduct during the Year.

DIRECTOR'S CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

All Directors are encouraged to and had confirmed that they had complied with the Code Provision A.6.5 of the Code during the Year, that all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged an in house training on the Listing Rules and the Code for Directors in the form of a seminar with provision of training materials compiled by the legal adviser. All Directors had attended the in-house training. The training covered disciplinary matters on breach of the Listing Rules and requirements on disclosure of insider information under the Listing Rules.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") on 25 April 2005. As at the date of this report, the Remuneration Committee comprised an executive director, namely Mr. Chen Dezhao, and three independent non-executive directors, namely Mr. Liu Jin Lu, Ms. Chan Chak Kwan and Mr. Cui Haitao. Mr. Liu Jin Lu was appointed as a committee member and the chairman of the Remuneration Committee on 25 May 2018 after the two meetings held by the Remuneration Committee during the year.

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the Code and are available on the Company and the Stock Exchange's websites.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for the remuneration of Directors, reviewing and making recommendations on their specific remuneration package by reference to market conditions, performance of the Group and corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee had reviewed the Group's remuneration policy and approved the terms of executive Directors' service contracts. During the Year, the Board as a whole has determined the remuneration policy and packages of the Directors. No individual Director was allowed to participate in the procedures for deciding his/her individual remuneration package.

A record of the members' attendance at the Remuneration Committee's meeting is set out as follows:

Members of Remuneration Committee	**Attendance/ Number of Meetings**
Liu Jin Lu *(Chairman)* (appointed on 25 May 2018)	0/0
Chen Dezhao	2/2
Chan Chak Kwan	2/2
Cui Haitao (appointed on 28 February 2018)	1/1
Chen Wen Ping (retired on 25 May 2018)	0/2

The Remuneration Committee held two meetings during the Year and members of the Remuneration Committee had performed the following duties:

- consulted the chairman of the Board and/or chief executive about their remuneration proposals for other executive Directors. The Remuneration Committee has access to independent professional advice if necessary;
- made recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewed and approved the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- reviewed and approved the terms of executive Directors' service contracts;
- made recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- made recommendations to the Board on the remuneration of non-executive Directors; and
- considered salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company and its subsidiaries.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management recognise the responsibility of safeguarding the interest of Shareholders and provide transparent and real time information on the Company so as to keep the Shareholders and investors abreast of the Company's position and help them to make the best investment decision. The Company believes that maintaining good and effective communication with shareholders can facilitate the Shareholders' understanding of the business performance and strategies of the Group. The Board and senior management also recognise the responsibility of safeguarding the interest of the Shareholders. In order to safeguard the Shareholders' interest, information of the Company and the Group are delivered to the Shareholders through a number of channels, which includes annual reports, interim reports, announcements and circulars. The latest information of the Company and the Group together with the published documents are also available on the Company's website.

The Company holds annual general meeting every year as an appropriate media for direct communication between the Board and the Shareholders. Shareholders can raise questions directly to the Board in respect of the business performance and future development of the Group at such annual general meetings.

SHAREHOLDER'S RIGHTS

Procedures for putting forward proposals at general meeting by Shareholders

In accordance with the requirements under Article 58 of the Articles, extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 88 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The minimum length of the period, during which the notices required under the Articles will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Procedures for directing Shareholders' enquiries to the Board

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

Attention: Mr. Tony Tai, Zhongtian International Limited
5th Floor, Block C, Zhongtian Building, No. 38 Shandongtou Road
Laoshan District, Qingdao City, Shandong Province
The People's Republic of China

Shareholders' enquiries and concerns are forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the Shareholders' questions.

INVESTOR RELATIONS

During the Year, the Company did not make any changes to the Memorandum of Association of the Company and the Articles and the current version of which is available on the websites of the Stock Exchange and the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the responsibility to maintain appropriate and effective risk management and internal control systems in order to safeguard the interest of the Group and the Shareholders, and to review and monitor the effectiveness of the internal control and risk management systems on a regular basis to ensure that the systems in place are adequate.

The Group's risk management and internal control systems comprise, among others, the relevant financial, operational and compliance controls and risk management procedures, a well-established organisational structure with clearly defined lines of responsibility and authority. Each department is accountable for its daily operations and is required to implement the business strategies and policies adopted by the Board from time to time.

The internal audit department of the Company supported the Board and the Audit Committee in reviewing the effectiveness of risk management and internal control systems and performed its functions during the year following an annual audit plan and submitting their reports of their findings to the Board and the Audit Committee at the meetings. The Audit Committee provides independent review on effectiveness of the risk management and internal control systems of the Group and gives their recommendation to the Board. The Board is responsible for reviewing the internal audit report and approving policies and procedures designed by the management.

The Board conducted a review and assessment of the effectiveness of the Group's risk management and internal control systems and procedures during the financial year ended 31 December 2018 by way of discussions with the management of the Group, members of the Audit Committee and the external independent auditor. The Board considered major investigation findings of the external consultant on risk management and internal control matters and management's response to these findings.

The Board believes that the existing risk management and internal control systems are adequate and effective. The Board also reviewed the resources, qualification and experience of staff of the Group's accounting and financial reporting function and their training schemes and budget and was satisfied with their adequacy.

The Board also assessed the effectiveness of the Group's internal audit function and external audit process, and satisfied itself, through the work of its Audit Committee, that the internal audit function is adequately resourced and is effective at providing assurance to the Board on the relevant risks faced by the Company, and that the external audit process is effective.

The Company has its inside information policy and dissemination procedure, and has regularly reminded its Directors and employees about due compliance with all policies regarding the inside information. Pursuant to the relevant procedures, after an employee is aware of any information which may constitute an inside information, he/she should report to his/her department head or the management of the Group. Upon the Directors and management of the Group having confirmed such information is an inside information, they shall ensure such inside information be kept confidential until the disclosure of such information is appropriately approved, and the dissemination of such information should be efficiently and consistently made. The Company keeps its Directors and employees appraised of the latest regulatory updates in order to ensure the compliance with the regulatory requirements.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the external auditor of the Group in the year of 2018 comprised fees for audit services of approximately RMB685,000.

AUDIT COMMITTEE

The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process and internal control system of the Group as well as external auditor of the Group.

The Audit Committee held two meetings during the Year to review the financial results and reports (including the interim results of the Group for the six months ended 30 June 2018). Policies in relation to financial controls, internal controls, risk management systems of the Group, and the retirement and appointment of the external auditor were reviewed by the Audit Committee at the meetings. The Audit Committee has reviewed this annual report and confirmed that this annual report is complete, accurate and complies with all applicable rules and regulations, including but not limited to the Listing Rules and the Code. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor.

The Audit Committee comprises three independent non-executive Directors. A record of the Directors' attendance at the Audit Committee's meetings is set out as follows:

Members of the Audit Committee	**Attendance/ Number of Meetings**
Cui Haitao (appointed on 28 February 2018) *(Chairman)*	2/2
Liu Jin Lu	2/2
Chan Chak Kwan	2/2
Chen Wen Ping (retired on 25 May 2018)	0/1

During the Year and up to the date of this report, members of the Audit Committee had performed the following duties:

- reviewed and approved the annual results of the Group for the year ended 31 December 2018 and the interim results of the Group for the six months ended 30 June 2018;

- made recommendations to the Board on the appointment of the Company's external auditor, and approved the remuneration and terms of engagement of the Company's external auditor;

- reviewed and monitored the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- monitored the integrity of the Company's financial statements and annual report and accounts, half year report and reviewed significant financial reporting judgements contained in them;
- discussed with the Company's external auditors questions and doubts arising in audit of interim and annual accounts;
- reviewed the letter to the Company's management from the Company's external auditors and the management's response;
- reviewed the statement about the Company's internal control system which included in this annual report prior to submission for the Board's approval;
- reviewed the Company's financial reporting, financial controls, internal control and risk management systems;
- discussed the risk management and internal control system with the Company's management to ensure that management has performed its duty to have an effective internal control system;
- considered major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensured that the Company's internal audit function is adequately resourced and had appropriate standing within the Company, and reviewed and monitored its effectiveness;
- reviewed the financial and accounting policies and practices of the Group;
- reviewed the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- ensured that the Board had provided a timely response to the issues raised in the external auditor's management letter; and
- reviewed the new terms of reference of the Audit Committee and provided advice thereon to the Board and enhanced the function of supervising risk management system of the Company in accordance with the amendments to the Code and Corporate Governance Report made by the Stock Exchange, which is applicable to the accounting period beginning from 1 January 2018.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the Year. The auditor of the Company acknowledge their reporting responsibilities in the auditor's report on the financial statements for the Year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") on 28 March 2012, which comprises an executive Director, namely Mr. Chen Dezhao, and two independent non-executive Directors, namely Ms. Chan Chak Kwan and Mr. Cui Haitao. Mr. Chen Dezhao shall act as the chairman of the Nomination Committee. The main function of the Nomination Committee is to identify appropriate individuals qualified to become Board members and to provide advice to the Board in respect of nominating such persons to the Board.

In August 2013, the Board has adopted its board diversity policy. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

A record of the members' attendance of the Nomination Committee during the year ended 31 December 2018 is set out as follows:

Members of the Nomination Committee	**Attendance/ Number of Meetings**
Chen Dezhao *(Chairman)*	2/2
Chan Chak Kwan	2/2
Cui Haitao (appointed on 28 February 2018)	1/1
Chen Wen Ping (retired on 25 May 2018)	0/2

The written terms of reference of the Nomination Committee are in line with the Code, and are available on the Company and the Stock Exchange's websites.

During the Year, the Nomination Committee has performed the following duties:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identified individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assessed the independence of independent non-executive Directors; and
- made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive of the Company.

INDEPENDENT AUDITOR'S REPORT

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZHONGTIAN INTERNATIONAL LIMITED
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Zhongtian International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 43 to 136, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, 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 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with the 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 our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which indicates that the Group had net current liabilities of approximately RMB97,200,000 as of 31 December 2018. Chen Jun, the ultimate controlling party and an executive director of the Company, has provided an irrevocable undertaking of making adequate funds to the Group to enable it to meet its debts as and when they fall due and to carry on its business as a going concern in the foreseeable future. This condition, along with other matters as set forth in note 1, indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for 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.

The key audit matter	How our audit addressed the key audit matter
(a) Recoverability of loan and other receivables and interest receivable (Refer to notes 2(h)(i), 5(b)(vi), 5(b)(vii), 15 and 18 to the consolidated financial statements) At 31 December 2018, the Group had long-term loan and other receivables (non-current assets) and accrued interest receivables of approximately RMB613,500,000 and RMB31,209,000, respectively, due from Qingdao Ruiding Energy Co., Ltd ("Ruiding"), an independent third-party natural gas operator, which holds a concession right for the construction of natural gas pipeline networks and for the distribution of natural gas in certain designated areas in Qingdao, the People's Republic of China, as further detailed in Note 15 to the consolidated financial statements. Under a pledge agreement entered into between the Group, Ruiding and the owners of Ruiding on 18 June 2018 (the "Pledge Agreement"), Ruiding has agreed to pledge the entire business and relevant assets of its natural gas project in favour of the Group for the repayment of its debts owing to the Group. The Group assessed the recoverability of the long-term loan and other receivables (non-current assets) and accrued interest receivables by reference to the recoverable amount, being the fair value less cost of disposal, of business and relevant assets of the natural gas project of Ruiding, as an identified cash-generating unit, based on a business valuation performed by an independent professional valuer with qualifications and experiences in valuing similar assets. Based on the assessment, the directors of the Company considered that the recoverable amount of the long-term loan and other receivables (non-current assets) and interest receivables exceeded their aggregate carrying amount and accordingly, no impairment was recognised at 31 December 2018. Due to the inherent uncertainty and complexity, significant judgements and estimates are involved in forecasting future cash flows, based on the assumptions which reflect management's view on future prospect of natural gas business and in determining appropriate discount rate, which are the basis for the assessment of recoverability. This is the key judgemental area that our audit is concentrated on. The Group's policy on impairment of the long-term loan and other receivables and accrued interest receivables and the uncertainties on the accounting estimates and judgements are disclosed in Notes 2(h)(i), 5(b)(vi) and 5(b)(vii) to the consolidated financial statements, respectively.	We performed the following audit procedures: • Reviewing the Group's credit control and debt recovery procedures and actions taken to monitor and collect repayments from Ruiding; • Examining critically the terms of the underlying agreements; • Reviewing the legal opinion issued by the Company's lawyer on the legality of the arrangements under the underlying agreements and the title of the concession right for the construction and distribution of the natural gas; • Reviewing Ruiding's history of payments of interest on the long-term loan; • Examining the terms of the Pledge Agreement under which the business and relevant assets of Ruiding shall be pledged, in favour of the Group, as collaterals for the long-term loan and other receivables and accrued interest receivables; • Verifying the ownership of Ruiding; • Performing interviews with the top management of Ruiding and physical inspection on its natural gas construction sites; • Obtaining direct confirmation from Ruiding for the existence, accuracy and completeness of the long-term loan and other receivables and accrued interest receivables; • Conducting diligence interview with the shareholders of Ruiding who have confirmed that they are not related parties of the Group or its top management; • Verifying that the shareholders of Ruiding are not substantial shareholders of the Company, key management or employees of the Group; • Verifying that the natural gas concession right of Ruiding is clean of any pledge or not subject to any encumbrances, in accordance with the natural gas concession right agreement signed between the government and Ruiding; • In respect of business valuation of the natural gas project of Ruiding: – assessing the external valuer's independence, competence and objectivity; – evaluating the valuation methodology used; and – challenging the reasonableness of the key assumptions adopted and the discount rate. We also assessed the disclosures made in the consolidated financial statements for the long-term loan and other receivables (non-current assets) and accrued interest receivables under the underlying agreements.

The key audit matter	How our audit addressed the key audit matter
(b) Valuation of investment properties	
(Refer to notes 2(d), 5(b)(i) and 13 to the consolidated financial statements) The fair value of the Group's investment properties of approximately RMB787,040,000 at 31 December 2018, were determined by the directors of the Company with reference to the professional valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, being an independent firm of professional valuers which has, amongst its staff, fellow members of chartered surveyors with recent experiences and qualifications in the category and locations of similar properties being valued. The change in the fair value loss of approximately RMB13,304,000 on the Group's investment properties during the year, was recognised and charged to consolidated statement of profit or loss for the year. The outcome of valuations for the Group's investment properties are dependent on the selection of valuation approaches and key assumptions that require significant judgements and estimates made by the management of the Group and the valuer. The valuation methodologies and key assumptions applied by the valuer in determining the fair value of the Group's investment properties at 31 December 2018 have been disclosed in Note 13 to the consolidated financial statements.	Our procedures performed include: • Assessing the independent external valuers' independence, competence and objectivity; • Assessing the appropriateness of the valuation methodologies and approaches for the Group's investment properties at 31 December 2018; • Reviewing and challenging the reasonableness and relevance of the assumptions and input data adopted by the valuer in the valuations for the investment properties with reference to our knowledge of the property market data like the capitalised rental income yield, prevailing market rentals and recent transaction prices for similar properties in the similar conditions and locations where the Group's investment properties are situated; • Checking mathematical accuracy of calculation for the fair value gain of the investment properties and related deferred tax liabilities arising from fair value changes of the Group's investment properties; and • Assessing the disclosures made in the consolidated financial statements in respect of the valuation of the Group's investment properties.

The key audit matter	How our audit addressed the key audit matter
(c) Impairment of rentals receivable	
(Refer to notes 2h(i), 5(a)(iii), 5(b)(vi), 5(b)(vii) and 18(c) to the consolidated financial statements) At 31 December 2018, rentals receivable amounted to approximately RMB29 million, for which no provision for impairment was made, receivable from Hengyuan Lizhen (as defined in note 18(c) to the consolidated financial statements), which was the largest customer of the Group but was in default in the settlement of rentals receivable at 31 December 2018. As security for the rental settlement, a hotel company being wholly-owned subsidiary of Hengyuan Lizhen, has provided a corporate guarantee in favour of the Group that the hotel company shall use all its assets, including but not limited to its hotel properties, as securities for the repayment of the outstanding rental owing by Hengyuan Lizhen to the Group at 31 December 2018. This may give rise to the risk of bad debt losses arising from unfavourable changes in the abilities of Hengyuan Lizhen and the hotel company as a guarantor to settle the outstanding rentals receivable from Hengyuan Lizhen after year-end. The Group assessed the recoverability of the rentals receivable, taking into account the rental settlement history and financial abilities of Hengyuan Lizhen and recoverable amount of the guarantee provided by the hotel company, particularly the surplus of market value of the hotel properties of the hotel company, based on a valuation performed near the year-end by an independent professional valuer, less the related first mortgaged debts of the hotel company. Based on the assessment, the directors of the Company considered that the rentals receivable can be recovered in full and accordingly, no impairment on the rentals receivable was recognised at 31 December 2018. Management's judgement and inherent estimation uncertainty are involved in determining the provision for the lifetime expected loss of rentals receivable from the tenant and in assessing its adequacy through considering the expected recoverability of the year-end rentals receivable.	We performed the following audit procedures: – Reviewing the Group's credit control and debt recovery procedures and actions taken to monitor and collect the rentals receivable; – Reviewing historical settlement history of Hengyuan Lizhen; – Assessing ageing analysis for rentals receivable from Hengyuan Lizhen and updated creditworthiness of Hengyuan Lizhen; – Enquiring management of any dispute with Hengyuan Lizhen, assessing the debtor confirmation reply directly obtained from Hengyuan Lizhen and reviewing correspondences with Hengyuan Lizhen for any potential dispute; – Verifying the ultimate beneficial owner of Hengyuan Lizhen who is neither a substantial shareholder of the Company nor an employee of the Group; – Reviewing the guarantee agreement made between the hotel company (as a guarantor) and the Group and assessing the abilities of the hotel company and Hengyuan Lizhen to fully settle the outstanding rentals receivable; – Reviewing and challenging the management's assessment on expected credit loss on rentals receivable, taking into account payment history and creditworthiness of Hengyuan Lizhen, and the guarantee provided by the hotel company, as a guarantor, for the full repayment of rentals owing by Hengyuan Lizhen to the Group;

The key audit matter	How our audit addressed the key audit matter

	– Verifying the ownership of the hotel company as an indirect wholly-owned subsidiary of Hengyuan Lizhen and performing physical inspection on its hotel property that is subject to the guarantee in favour of the Group;
	
	– Performing due diligence interviews with the ultimate beneficial owner and the top management of Hengyuan Lizhen, which is the sole beneficial owner of the hotel company, as a guarantor, for confirming the existence, accuracy and completeness of the outstanding rentals payable to the Group, and the details and nature of the guarantee provided to the Group;
	
	– Obtaining and reviewing direct confirmation reply from Hengyuan Lizhen for the existence, accuracy and completeness of the outstanding rentals owing to the Group;
	
	– In respect of valuation of the hotel properties of the guarantor, which is a wholly-owned subsidiary of Hengyuan Lizhen:
	
	    – assessing the external valuer's independence, competence and objectivity;
	
	    – evaluating the valuation methodology used; and
	
	    – evaluating the reasonableness of the key assumptions adopted.

Information other than the consolidated financial statements and auditor's report thereon

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we were required to report the fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirement 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 assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibility 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 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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, intention omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

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

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

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

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2019

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	6(a)	**45,705**	43,429
Other revenue, income and other net gains	7	**33,010**	34,509
Fair value (loss)/gain on investment properties	13	**(13,304)**	99,759
Other operating costs		**(415)**	(3,703)
Administrative expenses		**(34,669)**	(21,715)
Finance costs	8(a)	**(48,238)**	(40,130)
(Loss)/profit before taxation	8	**(17,911)**	112,149
Income tax expenses	9(a)	**(27,651)**	(28,668)
(Loss)/profit for the year attributable to owners of the Company		**(45,562)**	83,481
Other comprehensive loss for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations		**(132)**	(319)
Item that will not be reclassified to profit or loss:			
Revaluation surplus on property, plant and equipment, net of deferred tax		**981**	–
Total comprehensive (loss)/income for the year			
Attributable to owners of the Company		**(44,713)**	83,162
(Loss)/earnings per share (expressed in RMB cents)			
Basic and diluted	12	**(11.1)**	20.4

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Investment properties	13	**787,040**	790,900
Fixed assets			
– Property, plant and equipment	14	**1,138**	5,966
– Leasehold land held under operating lease	14	**–**	3,550
Loan and other receivables	15	**613,500**	604,500
Prepayment for construction costs	16	**–**	45,000
		1,401,678	1,449,916
Current assets			
Inventories	17	**–**	29
Trade and other receivables	18	**61,384**	27,237
Cash and cash equivalents	19(a)	**15,465**	25,341
		76,849	52,607
Current liabilities			
Trade and other payables	20	**62,513**	39,442
Amount due to a director	30(a)	**603**	323
Amount due to ultimate controlling party of the Company	30(b)	**21,064**	15,244
Tax payable	21(a)	**6,569**	5,788
Bank and other borrowings	22	**83,300**	104,300
		174,049	165,097
Net current liabilities		**(97,200)**	(112,490)
Total assets less current liabilities		**1,304,478**	1,337,426
Non-current liabilities			
Bank and other borrowings	22	**720,850**	736,150
Deferred tax liabilities	21(b)	**242,111**	215,046
		962,961	951,196
Net assets		**341,517**	386,230
Total assets		**1,478,527**	1,502,523

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Capital and reserves			
Share capital	24	**3,667**	3,667
Reserves	25	**337,850**	382,563
Total equity		**341,517**	386,230

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

Chen Jun
Director

Chen Dezhao
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company						
		Reserves					
	Share capital	**Share premium**	**Exchange reserve**	**Property revaluation reserve**	**Retained earnings/ (accumulated losses)**	**Sub-total**	**Total**
	note 24	note 25(a)	note 25(b)	note 25(c)			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1 January 2017	3,667	328,194	(3,341)	1,652	(27,104)	299,401	303,068
Changes in equity for 2017:							
Profit for the year	–	–	–	–	83,481	83,481	83,481
Other comprehensive loss for the year:							
Exchange difference on translation of financial statements of foreign operations	–	–	(319)	–	–	(319)	(319)
Total comprehensive income for the year	–	–	(319)	–	83,481	83,162	83,162
At 31 December 2017 and 1 January 2018	3,667	328,194	(3,660)	1,652	56,377	382,563	386,230
Changes in equity for 2018:							
Loss for the year	–	–	–	–	(45,562)	(45,562)	(45,562)
Other comprehensive loss for the year:							
Exchange difference on translation of financial statements of foreign operations	–	–	(132)	–	–	(132)	(132)
Revaluation surplus immediately before transfer of property, plant and equipment to investment properties, net of deferred tax	–	–	–	981	–	981	981
Total comprehensive loss for the year	–	–	(132)	981	(45,562)	(44,713)	(44,713)
At 31 December 2018	3,667	328,194	(3,792)	2,633	10,815	337,850	341,517

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Operating activities			
(Loss)/profit before taxation		**(17,911)**	112,149
Adjustments for:			
Interest income from bank deposits	7	**(109)**	(113)
Interest income from loan receivable	7	**(33,413)**	(24,933)
Finance costs	8(a)	**48,238**	40,130
(Reversal of impairment loss)/impairment loss on trade receivables	8(c)	**(3,237)**	4,448
Impairment loss on prepayment for construction costs	8(c)	**2,000**	–
Fair value loss/(gain) on investment properties	13	**13,304**	(99,759)
Depreciation and amortisation	14	**407**	335
		9,279	32,257
Changes in working capital			
Decrease/(increase) in inventories		**29**	(29)
Increase in trade and other receivables		**(40,041)**	(3,583)
Increase in trade and other payables		**34,802**	3,309
Increase in amount due to a director		**280**	102
Increase in amount due to ultimate controlling party of the Company		**5,820**	1,386
Cash generated from operations		**10,169**	33,442
Bank interest received		**109**	113
Income tax paid		**–**	(5,334)
Land appreciation tax paid		**(1,493)**	(3,788)
Net cash generated from operating activities		**8,785**	24,433

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Investing activities			
Interests received		**33,413**	26,146
(Refund of)/payments for construction costs of land under development	16	**43,000**	(45,000)
Payments for expenditure on investment properties and property, plant and equipment		**(299)**	(2,462)
Payments for a project loan receivable	15	**–**	(600,000)
Net cash generated from/(used in) investing activities		**76,114**	(621,316)
Financing activities			
Proceeds from bank and other borrowings	19(b)	**10,000**	724,000
Repayments of bank and other borrowings	19(b)	**(46,300)**	(64,658)
Interests paid	19(b)	**(58,475)**	(43,525)
Net cash (used in)/generated from financing activities		**(94,775)**	615,817
Net (decrease)/increase in cash and cash equivalents		**(9,876)**	18,934
Cash and cash equivalents at beginning of the year		**25,341**	6,407
Cash and cash equivalents at end of the year	19(a)	**15,465**	25,341

The accompanying notes form part of these financial statements.

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 December 2003 under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 22 September 2004. The addresses of the registered office and principal of business of the Company are disclosed in the corporate information to the annual report.

The principal business activities of the Group are property development, property leasing and investment, and provision of financial services in the People's Republic of China (the "PRC").

Going concern basis

As at 31 December 2018, the Group's current liabilities exceeded current assets by approximately RMB97,200,000. This condition indicates the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the aforesaid conditions, the directors of the Company consider that the Group will be able to operate as a going concern in the foreseeable future, after taking into consideration of:

(a) continuing financial support from the ultimate controlling party of the Company, Mr. Chen Jun who has provided an irrevocable undertaking to the Group by providing adequate funds to the Group to enable it to meet its debts as and when they fall due and to carry on its business as a going concern in the foreseeable future; and

(b) additional new credit facilities being currently in serious discussions between the Group and certain financial institutions.

The directors of the Company have prepared a cash flow forecast of the Group for a period covered not less than twelve months from date of approval of the consolidated financial statements. Based on the forecast which has taken into account the Group's above measures taken to date, the directors of the Company are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of approval of the consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and the future capital expenditure requirements. Accordingly, the directors of the Company are satisfied with the Group's ability to continue as a going concern.

1. GENERAL INFORMATION *(Continued)*

Going concern basis *(Continued)*

Should the Group be unable to continue to operate as a going concern, adjustments would have been made to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in RMB, rounded to the nearest thousand, except for per share data.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at the fair value as explained in the accounting policies set out below:

– investment properties (see note 2(d))

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the equity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loss control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(h)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(f)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(q)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(f).

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less any accumulated depreciation and any accumulated impairment losses (see note 2(h)(ii)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of their estimated lives, being no more than 50 years and the unexpired term of the lease
- Motor vehicles 5 years
- Furniture, fixtures and equipment 5 years
- Computer equipment 3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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.

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(d)); and

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

(i) Classification of assets leased to the Group *(Continued)*

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(d)) or is held for development or sale.

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(h) Credit losses and impairment of assets

(i) Credit losses from loan and trade and other receivables

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (“ECLs”) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, and loan and trade and other receivables).

Financial assets measured at fair value are not subject to the ECL assessment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

(A) Policy applicable from 1 January 2018 *(Continued)*

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable;

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

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

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

(A) Policy applicable from 1 January 2018 *(Continued)*

Measurement of ECLs *(Continued)*

ECLs are measured on either of the following bases:

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

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

Loss allowances for loan and trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

(A) Policy applicable from 1 January 2018 *(Continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) 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 (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk *(Continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(q)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income *(Continued)*

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For loan and trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from loan and trade and other receivables *(Continued)*

(B) Policy applicable prior to 1 January 2018 (Continued)

This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- leasehold land held under operating lease; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– Reversals of impairment losses

In aspect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(h)(i) and (ii)).

(i) Loan and trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(h)(i)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables (including amounts due to directors and the ultimate controlling party of the Company) are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(h)(i).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits/accumulated losses).

(iii) Termination benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(d), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Provisions and contingent liabilities

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

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

(q) Revenue recognition

Income is classified by the Group as revenue when it arises from the provision of services or the use of the Group's assets by tenants under leases in the ordinary course of the group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract, control of the goods or services may be transferred over time or a point in time. Control of the goods or services is transferred over time if the Group's performance:

(i) provides the benefits received and consumed simultaneously by the customer;

(ii) creates or enhances an asset that the customer controls as the Group performs; or

(iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation, which is measured based on direct measurements of the value of individual goods or services transferred by the Group to the customer. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition *(Continued)*

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

(i) Rental income from operating leases

Rental income under operating leases is recognised when the rights of use of the leased assets are passed to the tenant and is credited to the profit or loss on a straight line basis over the terms of the relevant lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral rate of the aggregate net lease payment receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Revenue from provision of financial services

Revenue from provision of financial services is recognised when the financial services are rendered and on a straight-line basis over the term period of the relevant agreement. For fixed-price contracts, revenue from services is recognised in accordance with the terms of the relevant agreement and based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(iii) Interest income

Interest income is recognised as it accrues under the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) 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 the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Related parties *(Continued)*

(b) *(Continued)*

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

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

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

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

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

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision maker ("CODM"), being the Group's most senior executive management, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued the following new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group.

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Except for the application of HKFRS 9 and HKFRS15, the application of the new and amendments to HKFRSs in the current year are not expected to have material impact on the Group's financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group assessed that the cumulative effect of initial application was not material. Therefore no adjustment to the opening equity at 1 January 2018 was made. Comparative information continues to be reported under HKAS 39.

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

HKFRS 9, Financial instruments *(Continued)*

Details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These superseded HKAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts, if any. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not redesignate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

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

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables); contract assets as defined in HKFRS 15, when the receivables are not unconditional (e.g. retention money withheld by customers who will settle with the Group upon the customers' satisfaction of the final check and inspection of the transferred goods at the end of the assurance-type warranty periods).

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

HKFRS 9, Financial instruments *(Continued)*

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets 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 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has assessed that the cumulative effect of initial application was immaterial, and accordingly, no adjustment is made to the opening balance of equity at 1 January 2018. Comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

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

HKFRS 15, Revenue from contracts with customers *(Continued)*

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

a. Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or a service in the contract, which is taken as single point in time and the customers have taken acceptance of the goods transferred by the Group or over the time when the Group has rendered the promised service to the customers.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises its revenue.

b. Significant financing component

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

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers. Accordingly, this change in policy does not have a significant impact on the financial assets and liabilities as at 1 January 2018.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments by categories

	2018 RMB'000	2017 RMB'000
Financial assets		
At amortised cost		
– Loan and other receivables	**613,500**	604,500
– Trade and other receivables (excluding prepayments and deposits)	**61,043**	26,949
– Cash and cash equivalents	**15,465**	25,341
	690,008	656,790
Financial liabilities		
At amortised cost		
– Trade and other payables (excluding receipt in advance, accruals and other tax payable)	**23,268**	19,058
– Amount due to a director	**603**	323
– Amount due to ultimate controlling party of the Company	**21,064**	15,244
– Bank and other borrowings	**804,150**	840,450
	849,085	875,075

The Group has exposure to the credit risk, liquidity risk, interest rate risk and currency risk arising from financial instruments. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk

(i) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

(ii) The Group's credit risk is primarily attributable to loan and trade and other receivables and cash and cash equivalents. In order to minimize the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Ongoing credit evaluation is performed on the financial condition of the debtors. These evaluations focus on the debtors' past history of making payments when due and current ability to pay, and take into account information specific to the debtor as well as pertaining to the economic environment in which the debtor operates. Trade receivables are usually due within 10-30 days from the date of billing. For debtors with balances past due, further credit would not be granted until all outstanding balances are settled. Normally, the Group does not obtain collateral from its customers. Loan and interest receivable and service income receivables are due ranging from around 2.5 to 4.5 years after the end of the reporting period. The Group has a back-to-back project loan receivable of RMB600,000,000 (2017: RMB600,000,000), together with accrued interest receivable of RMB31,209,000 (2017: RMB24,933,000) and service income receivable of RMB13,500,000 (2017: RMB4,500,000) owing from an independent third party debtor, as further detailed in note 15.

(iii) The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor. As at 31 December 2018, 99% (2017: 99%) and 100% (2017: 100%) of the total trade, loan and interest receivables, and service income receivable were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from loan and trade and other receivables are set out in notes 15 and 18.

(iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's cash and cash equivalents are placed with creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

At 31 December 2018, the Group has net current liabilities of approximately RMB97,200,000 (2017: RMB112,490,000) which included obligations of amount due to a director and amount due to ultimate controlling party of the Company of approximately RMB603,000 (2017: RMB323,000) and RMB21,064,000 (2017: RMB15,244,000), respectively. Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The directors of the Company are of the opinion that the Group will be able to obtain necessary funds for financing its future working capital and financial requirements as described in note 1 to the financial statements.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

The following tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018						
Trade and other payables	**23,268**	**–**	**–**	**–**	**23,268**	**23,268**
Amount due to a director	**603**	**–**	**–**	**–**	**603**	**603**
Amount due to ultimate controlling party of the Company	**21,064**	**–**	**–**	**–**	**21,064**	**21,064**
Bank and other borrowings	**90,496**	**213,599**	**518,192**	**3,354**	**825,641**	**804,150**
	135,431	**213,599**	**518,192**	**3,354**	**870,576**	**849,085**
2017						
Trade and other payables	19,058	–	–	–	19,058	19,058
Amount due to a director	323	–	–	–	323	323
Amount due to ultimate controlling party of the Company	15,244	–	–	–	15,244	15,244
Bank and other borrowings	165,662	70,627	796,562	5,430	1,038,281	840,450
	200,287	70,627	796,562	5,430	1,072,906	875,075

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings and loan receivable at the end of the reporting period:

	2018		2017	
	Effective interest rate%	**RMB'000**	Effective interest rate%	RMB'000
Fixed rate borrowings:				
Bank borrowings	**6.2**	**58,000**	6.2	49,000
Other borrowings	**2.5–9.5**	**610,000**	8.0–9.0	640,000
		668,000		689,000
Variable rate borrowings:				
Bank borrowings	**4.75–6.37**	**136,150**	4.75–6.37	151,450
Total borrowings		**804,150**		840,450
Fixed rate borrowings as a percentage of total borrowings		**83.0%**		82.0%
Fixed rate long-term loan receivable	**6.4**	**600,000**	6.4	600,000

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable-rate borrowings, with all other variables held constant, would have decreased/increased the Group's profit after tax and decreased/increased (2017: increased/decreased) retained earnings (2017: retained earnings) by approximately RMB1,021,000 (2017: RMB1,136,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analyses above have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2017:100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis is performed on the same basis for 2017.

(d) Currency risk

(i) Exposure to currency risk

The Group is exposed to currency risk primarily through bank deposits, trade and other receivables, trade and other payables and amounts due to directors and a the ultimate controlling party of the Company that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily Hong Kong dollar.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk *(Continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities that are denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

	2018 **RMB'000**	2017 RMB'000
Hong Kong dollar:		
Trade and other receivables	**259**	202
Cash and cash equivalents	**218**	276
Trade and other payables	**(1,377)**	(3,156)
Amount due to a director	**(603)**	(323)
Amount due to ultimate controlling party of the Company	**(10,656)**	(5,798)
Overall exposure arising from recognised assets and liabilities	**(12,159)**	(8,799)

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's (loss)/profit after tax (and retained profits/accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**(Decrease)/ increase on profit after taxation and retained earnings RMB'000**	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase on profit after taxation and (increase)/ decrease in accumulated losses RMB'000
Hong Kong dollar	**5%**	**(608)**	5%	(440)
	(5%)	**608**	5%	440

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities (loss)/profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group and the Company which expose the Group and the Company to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2017.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement

Financial assets and liabilities measured at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

(a) Critical judgement in applying accounting policies

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

(i) Going concern basis

As mentioned in note 1 to the financial statements, the directors of the Company are satisfied that the Group has sufficient cash resources to satisfy the Group's working capital and other financial obligations for the next twelve months from the end of the reporting period. Under such circumstances, the consolidated financial statements have been prepared on a going concern basis. If the going concern basis was not appropriate, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to make provision for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. Such adjustments may have a significant consequential effect on the profit for the year and net assets of the Group.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Critical judgement in applying accounting policies *(Continued)*

(ii) Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and considered the relevant factors, including but not limited to the development plans of the local government, which affected the Group's determination of the business model for each of its investment properties on whether the objective is to consume substantially all of the economic benefits embodied in the investment properties over time through use or through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have presumed that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale (2017: completed investment properties through sale and land held as investment property under development through use). As a result, the Group has recognised the deferred taxes on changes in fair value of investment properties on the basis that the Group is subject to enterprise income tax, value-added tax and land appreciation tax in the PRC. The carrying amount of deferred liabilities on investment properties at 31 December 2018 was approximately RMB242,111,000 (2017: RMB213,267,000).

(iii) Recognition of rental income and impairment assessment of rentals receivable from leasing properties

On 26 October 2015, Qingdao Zhongtian Software Park Co., Ltd. ("Zhongtian Software Park"), an indirect wholly-owned subsidiary acquired by the Company in March 2016, entered into a master lease agreement with Beijing Hengyuan Lizhen Network Technology Co., Ltd.* (北京亨元利貞網絡科技有限公司) (formerly known as Jinku Business Investment Co., Ltd.* (錦庫商業投資有限公司)) ("Hengyuan Lizhen") pursuant to which all the commercial and office units and certain carparks of Zhongtian Software Park located in Qingdao (the "Leased Properties") had been leased to Hengyuan Lizhen and the rights of use of all the Leased Properties had been passed to Hengyuan Lizhen since 1 January 2016 and during the lease period from 1 January 2016 to 31 December 2018 (the "Master Lease Agreement"). The Company has sought legal opinion from a PRC lawyer which opined that the Master Lease Agreement shall be legally valid and enforceable in the PRC and Zhongtian Software Park shall be entitled to receive all the rentals from Hengyuan Lizhen during the lease period under the Master Lease Agreement, which expired on 31 December 2018. Rental income from the Leased Properties were recognised when the rights of use of the Leased Properties had been passed to Hengyuan Lizhen since 1 January 2016 and were amortised and credited to the consolidated profit or loss on a straight-line basis over the lease period from 1 January 2016 to 31 December 2018 under the Master Lease Agreement.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Critical judgement in applying accounting policies *(Continued)*

(iii) Recognition of rental income and impairment assessment of rentals receivable from leasing properties *(Continued)*

Based on the information and documents made available to the Group, during the lease period of the above Master Lease Agreement, Hengyuan Lizhen has been beneficially owned and ultimately controlled by Mr. Shang, an independent third party individual (the "Hengyuan Lizhen Owner"), over whom the top management of the Group and/or substantial shareholders of the Company have no control or significant influence, and the Hengyuan Lizhen Owner is not a substantial shareholder of the Company. The Hengyuan Lizhen Owner and Ms. Yam, the spouse of Mr. Liu Jin Lu who is an independent non-executive and director of the Company, entered into a trust agreement in 2012 (the "Trust Agreement") pursuant to which the Hengyuan Lizhen Owner appointed Ms. Yam to acquire and hold the entire registered capital of Hengyuan Lizhen on trust of the Hengyuan Lizhen Owner. In addition, Mr. Liu Jin Lu was the supervisor of Hengyuan Lizhen but he did not participate in the management of Hengyuan Lizhen for the period from 20 October 2014 (date of appointment as supervisor) to 18 July 2018 (date of resignation as supervisor). Based on the legal opinion sought by the Company, in respect of the shareholding and management of Hengyuan Lizhen, Ms. Yam shall hold the shareholding of Hengyuan Lizhen as nominee on trust of the Hengyuan Lizhen Owner and she shall only act according to the directions and instructions from the Hengyuan Lizhen Owner under the Trust Agreement. Hengyuan Lizhen Owner and his trustee (Ms. Yam) are not the employees of the Group since the inception of the Master Lease Agreement on 26 October 2015. Accordingly, the directors of the Company considered that Hengyuan Lizhen is not a related party of the Group.

During the lease period of the Master Lease Agreement and up to 31 December 2018, Hengyuan Lizhen made payments for rentals of the Leased Properties totalling RMB91,211,000, leaving RMB29,576,000 unpaid and payable to Zhongtian Software Park as at 31 December 2018 which were overdue. Up to the date of approval for the consolidated financial statements, Zhongtian Software Park and Hengyuan Lizhen are still in negotiations for full settlement of the outstanding rentals payable by Hengyuan Lizhen. As disclosed in note 31(b), an indirect wholly-owned subsidiary of Hengyuan Lizhen, being a hotel company (the "Hotel Company"), has provided an irrevocable undertaking guarantee in favour of Zhongtian Software Park that the Hotel Company shall use all its assets, including but not limited to its hotel properties, as securities for the full settlement of the outstanding rentals owing by Hengyuan Lizhen to Zhongtian Software Park. In the opinion of the directors of the Company, the Hotel Company has adequate net assets and abilities to settle the outstanding rentals owing by Hengyuan Lizhen to Zhongtian Software Park, taking into account a professional valuation on the hotel properties owned by the Hotel Company conducted by an independent valuer in November 2018, and the related debts of the Hotel Company. The directors of the Company considered that there was no material difference in the market value of the hotel properties between the time interval of valuation date and 31 December 2018. After considering the rentals received from Hengyuan Lizhen and the irrevocable undertaking guarantee provided by an indirect wholly-owned subsidiary of Hengyuan Lizhen for full settlement of remaining the rentals receivable from Hengyuan Lizhen, the directors of the Company are of the opinion that no provision for impairment on the remaining rentals receivable from Hengyuan Lizhen was required.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Critical judgement in applying accounting policies *(Continued)*

(iii) Recognition of rental income and impairment assessment of rentals receivable from leasing properties *(Continued)*

On 26 February 2016, Zhongtian Software Park (as a lessor) and Hengyuan Lizhen (as a tenant) entered into a supplemental agreement (the "Supplemental Agreement"), pursuant to which, Hengyuan Lizhen, which had already obtained all the rights of use of the Leased Properties under the Master Lease Agreement since 1 January 2016, engaged Zhongtian Software Park to enter into certain sublease agreements (the "Subleases"), on behalf of Hengyuan Lizhen, for subleasing certain units of the Leased Properties from time to time during the lease period of the Master Lease Agreement when they were not occupied and/or used by Hengyuan Lizhen. Under the Supplement Agreement, all the rentals collected from other sub-tenants under the relevant Subleases shall belong to Hengyuan Lizhen. Under the above subleasing arrangement, on 20 October 2016, a sublease agreement was entered into between Zhongtian Software Park (on behalf of Hengyuan Lizhen) and Qingdao Supu E-business Co. Ltd. (青島速普電子商務股份有限公司) under which for the two years ended 31 December 2018 and 2017, annual rentals of RMB189,800 were paid and payable by Qingdao Supu E-business Co. Ltd. (青島速普電子商務股份有限公司), respectively, to Hengyuan Lizhen. Each of Mr. Chen Dezhao and Mr. Chen Jun, being executive directors of the Company, were appointed as an executive director of Qingdao Supu E-business Co. Ltd. (青島速普電子商務股份有限公司) on 4 July 2018. Mr. Chen Jun is interested in 87.54% of the issued shares of Qingdao Supu E-business Co. Ltd. (青島速普電子商務股份有限公司) since November 2017. As at 31 December 2018, rentals collected from other sub-tenants under the Subleases of approximately RMB556,000 which were not yet returned to Hengyuan Lizhen and were included in other payables under trade and other payables.

On 10 October 2016, Zhongtian Software Park was accredited as 眾創空間 by the Ministry of Science and Technology (科學技術部) of the PRC and as such, rental income from leasing Zhongtian Software Park may be subject to exemption of value-added tax ("VAT") and property taxes if the conditions, as prescribed in the circular (Cai Shui [2016] No.89 – the Circular about the Tax Policies on Science and Technology Hackerspace) (財稅[2016]89號－關於科技企業孵化器稅收政策的通知) issued by State Administration of Taxation (國家稅務總局) of the PRC on 11 August 2016, are fulfilled. As Hengyuan Lizhen could not meet with all the prescribed conditions as a qualifying tenant under the circular, the rental income received and receivable from Hengyuan Lizhen will not be exempted from paying VAT and property taxes. The directors of the Company considered that adequate provisions have been made for the VAT and property taxes arising from rental income received and receivable from Hengyuan Lizhen.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty

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

(i) Fair value of investment properties

Investment properties, including those completed properties and land held as investment property under development, are carried in the consolidated statement of financial position at their fair value, details of which are disclosed in note 13. The fair value of the investment properties was determined by reference to valuations conducted on these properties by an independent firm of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties included in the consolidated statement of financial position and corresponding adjustments to the changes in fair value reported in the consolidated profit or loss. At 31 December 2018, the carrying amount of investment properties was approximately RMB787,040,000 (2017: RMB790,900,000).

(ii) Land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including sales charges, borrowing costs and all property development expenditures. The Group is subject to land appreciation taxes in the PRC which has been included in income tax of the Group. However, the Group has not finalised its land appreciation tax returns with the tax authorities for certain property development projects of the Group. 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 according to the understanding of the tax rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(iii) Income tax and deferred taxation

The Group is subject to enterprise income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate 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 impact the income tax and deferred tax provision in the year in which such determination is made. Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(iv) Depreciation of property, plant and equipment and impairment of property, plant and equipment/leasehold land held under operating lease

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The management of the Group review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded. The useful lives are based on the Group's historic experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. As at 31 December 2018, the carrying amount of property, plant and equipment was approximately RMB1,138,000 (2017: RMB5,966,000).

Property, plant and equipment and leasehold land held under operating lease are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or fair value less cost of disposal. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to such items such as level of turnover and amount of operating costs.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(v) Impairment of interests in subsidiaries

The Company makes impairment on interests in subsidiaries when the related recoverable amounts of the investments in subsidiaries, with reference to the net asset values of the subsidiaries, are estimated to be less than their carrying amounts. As at 31 December 2018, the carrying amount of interests in subsidiaries was approximately RMB211,500,000 (2017: RMB213,160,000).

(vi) Impairment of loan and trade and other receivables

The Group makes allowance for impairment of loan and trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each counterparty debtor and the subsequent settlement from the debtors, and expected recoverable amounts of collaterals. If the financial conditions of the counterparty debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2018, the carrying amount of loan and other receivables (classified under non-current assets) was approximately RMB613,500,000 (2017: RMB604,500,000), and the carrying amount of trade and other receivables (classified under current assets) was approximately RMB61,384,000 (2017: RMB27,237,000), net of allowance for doubtful debts, of approximately RMB1,611,000 (2017: RMB4,848,000).

(vii) Provision of ECL for loan and trade and other receivables

The Group uses provision matrix to calculate ECL for loan and trade and other receivables by groupings of various debtors that have similar loss patterns. The provision rates are based on the Group's historical default rates taking into consideration of reasonable and supportable forward-looking information that is available without undue cost or effort. At end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, loan and trade and other receivables which are credit impaired are assessed for lifetime ECL individually. The provision of ECL is sensitive to changes in estimates. The information about the lifetime ECL and the Group's loan and trade and other receivables are disclosed in notes 15 and 18 respectively.

6. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents the rental income from investment properties, Revenue from provision of financial services. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2018 RMB'000	2017 RMB'000
Gross rental income from investment properties	**37,969**	39,583
Revenue from provision of financial services	**7,736**	3,846
	45,705	43,429
Timing of revenue recognition under HKFRS 15:		
Over time	**7,736**	3,846
Unsatisfied long-term financial service contract:		
Aggregate amount of the transaction price (less applicable value-added tax) allocated to long-term financial service contract that is partially unsatisfied at the end of the reporting period		
– within 1 year	**7,913**	*
– from 2 to 5 years	**31,859**	*
– beyond 5 years	**27,876**	*
	67,648	*

* As permitted under the transitional provisions in HKFRS 15, the transaction price allocated to partially or fully unsatisfied performance obligations as at 31 December 2017 is not disclosed.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Property segment: this segment includes property development, investment and leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently, all of the Group's investment properties are located in the PRC.

– Financial service segment: provision of services in connection with financing and procurement arrangements in the PRC, details of which are disclosed in note 15.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocation of resources between segments, the Group's CODM monitors the results, assets and liabilities of each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segment and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "segment operating results". Segment operating profit/loss includes the operating profit/loss generated by the segment without allocation of central administration costs. Taxation charge is not allocated to reportable segment.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

For the year ended 31 December 2018

	Property RMB'000	Financial service RMB'000	Total RMB'000
Reportable segment revenue from external customers	37,969	7,736	45,705
Reportable segment results	(24,502)	7,736	(16,766)
Interest income	109	33,413	33,522
Depreciation and amortisation	(423)	–	(423)
Finance costs	(14,825)	(33,413)	(48,238)
Fair value loss on investment properties	(13,304)	–	(13,304)
Reportable segment assets	822,061	644,709	1,466,770
Reportable segment liabilities	508,338	603,135	1,111,473

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

For the year ended 31 December 2017

	Property RMB'000	Financial service RMB'000	Total RMB'000
Reportable segment revenue from external customers	39,583	3,846	43,429
Reportable segment results	113,877	3,846	117,723
Interest income	113	24,933	25,046
Depreciation and amortisation	(306)	–	(306)
Finance costs	(15,197)	(24,933)	(40,130)
Fair value gain on investment properties	99,759	–	99,759
Reportable segment assets	852,379	629,433	1,481,812
Reportable segment liabilities	(472,024)	(625,587)	(1,097,611)

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2018 RMB'000	2017 RMB'000
Revenue		
Total reportable segment revenue	**45,705**	43,429
Elimination of inter-segment revenue	**–**	–
Consolidated revenue	**45,705**	43,429
(Loss)/Profit		
Reportable segment results	**(16,766)**	117,723
Unallocated other corporate expenses	**(1,145)**	(5,574)
Consolidated profit before taxation	**(17,911)**	112,149
Assets		
Total reportable segment assets	**1,466,770**	1,481,812
Unallocated cash and cash equivalents	**11,300**	20,245
Other unallocated corporate assets	**457**	466
Consolidated assets	**1,478,527**	1,502,523
Liabilities		
Total reportable segment liabilities	**1,111,473**	1,097,611
Unallocated income tax payable	**2,214**	1,100
Unallocated corporate liabilities	**23,323**	17,582
Consolidated liabilities	**1,137,010**	1,116,293

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(iii) Geographical information

In determining the Group's geographical information, revenues and results are attributed to the geographical location based on the location of the customers, and assets are attributed to the geographical location based on the location of the assets. As the Group's major operations and markets including location of the non-current assets are all located in the PRC, no further geographical information is provided.

(iv) Information from major customers

Revenue from external customers contributing 10% or more of the total revenue of the Group is as follows:

	2018	2017
	RMB'000	RMB'000
Customer A – property segment	**36,494**	38,249
Customer B – financial service segment	**7,736**	N/A

N/A – revenue from this customer was less than 10% of the total revenue of the Group for the year ended 31 December 2017.

7. OTHER REVENUE, INCOME AND OTHER NET GAINS/LOSSES

	2018 RMB'000	2017 RMB'000
Interest income from loan receivable (note (a) below)	**33,413**	24,933
Interest income from bank deposits	**109**	113
Exchange gain/(loss)	**(590)**	1,002
Recovery of income from sales of properties sold in prior years (note (b))	**–**	8,161
Government grant received	**–**	300
Sundry income	**78**	–
	33,010	34,509

Notes:

(a) This represented the interest accrued on a back-to-back long-term loan of RMB600,000,000 receivable from an independent third party gas operator under the arrangements as further disclosed in note 15 below. The interest expense of RMB33,413,000 accrued on the back-to-back loan of RMB600,000,000 payable to a trust scheme was included in the finance costs disclosed in note 8 below.

(b) In prior years, the Golden Century Group, which was acquired by the Group in 2016, sold certain properties to certain independent third party customers but the collectibility of the relevant sales proceeds was uncertain at that time. During the year ended 31 December 2017, the Group received the sales proceeds of RMB8,161,000 which were recognised and credited to profit or loss.

8. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting) the following:

		2018 RMB'000	2017 RMB'000
(a)	**Finance costs**		
	Interest on bank and other borrowings	**48,238**	40,130
(b)	**Staff costs (including directors' remuneration)**		
	Salaries, wages and other benefits	**3,396**	2,338
	Contributions to defined contribution retirement plans	**455**	465
		3,851	2,803
(c)	**Other items**		
	Auditor's remuneration		
	– audit services	**685**	607
	Depreciation of property, plant and equipment	**419**	261
	Amortisation of leasehold land held under operating lease	**74**	74
	Gross rental income from investment properties less direct outgoings of RMB248,000 (2017: RMB68,000)	**(34,791)**	(39,515)
	(Reversal of impairment loss)/impairment loss on trade receivables (note 18(b))	**(3,237)**	4,448
	Impairment loss on prepayment for construction cost (note 16)	**2,000**	–
	Operating lease charges in respect of buildings	**–**	144

9. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2018 **RMB'000**	2017 RMB'000
Current tax – PRC Enterprise Income Tax		
– provision for current year	**782**	5,932
	782	5,932
Deferred taxation:		
– origination and reversal of temporary differences (note 21(b))	**26,869**	22,736
Income tax expenses	**27,651**	28,668

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2017: 25%).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2018 and 2017, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2018 and 2017.

9. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

(b) Reconciliation between tax expenses and accounting (loss)/profit at the applicable tax rates:

	2018 RMB'000	2017 RMB'000
(Loss)/profit before taxation	**(17,911)**	112,149
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to the profit in the tax jurisdiction concerned	**(4,147)**	29,229
Tax effect of non-deductible expenses	**662**	269
Effects of non-taxable fair value loss/(gain) on investment properties	**3,326**	(24,940)
Effect on utilisation of tax losses	**–**	(69)
Tax effect on unrecognised tax losses	**743**	1,394
Effects of the temporary differences recognised	**26,869**	22,736
Tax effect on unrecognised temporary differences	**198**	49
Income tax expenses	**27,651**	28,668

10. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments are as follows:

	2018			
Name of directors	**Fees RMB'000**	**Salaries and other benefits RMB'000**	**Retirement scheme contributions RMB'000**	**Total emoluments RMB'000**
Executive directors				
Chen Dezhao	–	256	–	256
Chen Jun	–	548	6	554
Independent non-executive directors				
Chan Chak Kwan	18	–	–	18
Cui Haitao (Appointed on 28 February 2018)	17	–	–	17
Liu Jin Lu	18	–	–	18
Chen Wen Ping (Retired on 25 May 2018)	6	–	–	6
	59	804	6	869

10. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS *(Continued)*

	2017			
Name of directors	Fees RMB'000	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Total emoluments RMB'000
Executive directors				
Chen Dezhao	–	152	–	152
Chen Jun (Appointed on and being chief executive officer since 2 November 2017)	–	219	17	236
Zhao Yun (Being chief executive officer until and resigned on 2 November 2017)	–	97	1	98
Independent non-executive directors				
Chan Chak Kwan (Appointed on 25 May 2017)	9	–	–	9
Chen Wen Ping	9	–	–	9
Guo Qiang (Resigned on 25 May 2017)	–	–	–	–
Liu Jin Lu	9	–	–	9
	27	468	18	513

There was no amount paid during the two years ended 31 December 2018 and 2017 to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the two years ended 31 December 2018 and 2017.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: three) are the directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three (2017: two) individuals are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and other benefits	**562**	323
Contributions to retirement benefits scheme	**62**	25
	624	348

The emoluments of individuals other than directors with the highest emoluments are within the following bands:

	2018	2017
	Number of individuals	Number of individuals
Nil to HK$1,000,000 (equivalent to approximately RMB854,000) (2017: Nil to RMB867,000)	**2**	3

During the two years ended 31 December 2018 and 2017, no emoluments were paid to the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as compensation for loss of office and no bonus was paid or payable by the Group to the five highest paid individuals based on the performance of the Group.

12. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of RMB45,562,000 (2017: profit of RMB83,481,000) and the weighted average number of 410,209,122 (2017: 410,209,122) ordinary shares in issue during the year, calculated as follows:

(i) (Loss)/profit for the year attributable to owners of the Company

	2018	2017
	RMB'000	RMB'000
(Loss)/profit for the year	**(45,562)**	83,481

(ii) Weighted average number of ordinary shares of the Company

	2018	2017
Weighted average number of ordinary shares	**410,209,122**	410,209,122

(b) Diluted loss/earnings per share

For the two years ended 31 December 2018 and 2017, diluted loss/earnings per share are same as basic (loss)/earnings per share because the Company had no dilutive potential ordinary shares outstanding.

13. INVESTMENT PROPERTIES

	Completed properties RMB'000	Land held as investment property under development RMB'000	Total RMB'000
At 1 January 2017	541,370	148,200	689,570
Addition	–	1,571	1,571
Gain from fair value change	18,930	80,829	99,759
At 31 December 2017 and 1 January 2018	560,300	230,600	790,900
Transferred from property, plant and equipment (note 14)	9,160	–	9,160
Addition	–	284	284
Loss from fair value change	(2,420)	(10,884)	(13,304)
At 31 December 2018	567,040	220,000	787,040

Notes:

(a) The analysis of carrying amounts of investment properties is as follows:

	2018 RMB'000	2017 RMB'000
In Qingdao, the PRC		
– Commercial	**787,040**	790,900

All the investment properties of the Group are held for rental purposes and/or capital appreciation in future.

13. INVESTMENT PROPERTIES

Notes: *(Continued)*

(b) The land held as investment property under development is situated in Qingdao, the PRC and held under a medium term lease of 40 years. It is the intention of the Group to develop the above land held as investment property under development into a commercial complex for rental purposes and/or capital appreciation.

(c) All of the Group's investment properties were revalued on 31 December 2018 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (2017: Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Asset Appraisal Limited), being an independent firm of valuers, who has amongst its staff, fellow members of chartered surveyors with qualification and recent experience in the location and category of similar properties being valued. The fair values of completed properties were arrived at by considering the capitalised income to be derived from the existing tenancies and the reversionary potential of the properties, where appropriate, by reference to market evidence of transaction prices for the similar properties in the same locations and conditions. The completed properties are currently leased to third parties under operating leases. The fair value of land held as investment property under development is revalued by reference to recent transaction prices of similar land, based on the direct comparison approach.

The change in fair value with a loss of RMB13,304,000 (2017: Gain of RMB99,759,000) is recognised in profit or loss for the year ended 31 December 2018. Deferred tax charges of RMB26,869,000 (2017: RMB22,742,000) arising from change in fair value of the investment properties as at 31 December 2018 are recognised. The investment properties have pledged to banks, other financial institutions and a trust scheme for bank and other borrowings of the Group, as further detailed in notes 22 and 29.

(d) **Fair value measurements of investment properties**

(i) ***Fair value hierarchy***

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(d) Fair value measurements of investment properties *(Continued)*

(i) Fair value hierarchy *(Continued)*

	Fair value as at 31 December 2018 RMB'000	**Fair value measurements as at 31 December 2018 categorised into**		
		Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**
Recurring fair value measurement				
Commercial – PRC	**787,040**	**–**	**–**	**787,040**

	Fair value as at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Commercial – PRC	790,900	–	–	790,900

During the two years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfer 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.

The senior management of the Group had discussions with the valuers on the valuation assumptions and valuation results when the valuations for the Group's investment properties were performed at the respective reporting dates.

13. INVESTMENT PROPERTIES *(Continued)*

Notes: *(Continued)*

(d) Fair value measurements of investment properties *(Continued)*

(ii) Information about Level 3 fair value measurements

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

	Valuation techniques	Significant unobservable input	Range 2018	2017
Commercial use – commercial units	Income approach	Prevailing daily market rents per square meter	**RMB8.8**	RMB8.0–8.4
		Reversionary yield	**7.4%**	6.6%
Commercial use – office units	Income approach	Prevailing daily market rents per square meter	**RMB4.1–5.4**	RMB3.9–5.2
		Reversionary yield	**5.7–7.8%**	6.4–6.9%
Commercial use – car parks	Income approach	Prevailing monthly market rents per parking space	**RMB850**	RMB900
Land under development (for commercial complex)	Direct comparison approach	Prevailing market price per square meter	**RMB1,257–1,417**	RMB1,417–1,586

14. FIXED ASSETS

	Property, plant and equipment						
	Building RMB'000	Motor vehicles RMB'000	Furniture, fixture and equipment RMB'000	Computer equipment RMB'000	Sub-total RMB'000	Leasehold land held under operating lease RMB'000	Total RMB'000
Cost							
At 1 January 2017	4,928	2,362	540	69	7,899	3,872	11,771
Addition	–	855	8	28	891	–	891
At 31 December 2017 and 1 January 2018	4,928	3,217	548	97	8,790	3,872	12,662
Addition	–	–	–	15	15	–	15
Transferred to investment properties	(4,928)	–	–	–	(4,928)	(3,872)	(8,800)
At 31 December 2018	–	3,217	548	112	3,877	–	3,877
Accumulated depreciation, amortisation and impairment							
At 1 January 2017	315	2,225	14	9	2,563	248	2,811
Charge for the year	94	52	104	11	261	74	335
At 31 December 2017 and 1 January 2018	409	2,277	118	20	2,824	322	3,146
Charge for the year	47	210	104	10	371	36	407
Transferred to investment properties	(456)	–	–	–	(456)	(358)	(814)
At 31 December 2018	–	2,487	222	30	2,739	–	2,739
Carrying amount							
At 31 December 2018	–	730	326	82	1,138	–	1,138
At 31 December 2017	4,519	940	430	77	5,966	3,550	9,516

Notes:

During the year ended 31 December 2018, the leasehold land and building were leased to an independent party and accordingly, they had been reclassified as investment properties with a fair value of RMB9,160,000 at the date of change in use as investment properties upon inception of a new lease. The investment properties (2017: land and buildings) have been pledged to a bank for bank borrowings of the Group. Further details of the Group's bank borrowings are disclosed in note 22.)

15. LOAN AND OTHER RECEIVABLES

	2018	2017
	RMB'000	RMB'000
Loan receivable	**600,000**	600,000
Interests receivable	**31,209**	24,933
Income receivable from provision of financial services	**13,500**	4,500
Loan and other receivables carried at amortised costs	**644,709**	629,433
Less: Amount classified under current assets (note 18)	**(31,209)**	(24,933)
Non-current assets	**613,500**	604,500

On 17 July 2017, Qingdao Zhongtian Enterprises Development Co., Ltd ("Qingdao Zhongtian"), an indirect wholly-owned subsidiary of the Company, entered into a construction and procurement agreement (the "Construction and Procurement Agreement") with Qingdao Ruiding Energy Co., Ltd ("Ruiding"), an independent natural gas operator which holds a concession right for the construction of natural gas pipeline networks and for distribution of natural gas in the designated areas in Qingdao (the "Natural Gas Project"), the PRC, and Qingdao Ruikangjie New Energy Material Co., Ltd ("Ruikangjie"), an independent supplier of materials and equipment for construction of the Natural Gas Project of Ruiding, for a term of 10 years. In accordance with the commercial substance of the arrangements under the Construction and Procurement Agreement, as clarified by a supplemental agreement dated 26 March 2018 ("Supplemental Agreement") made between Qingdao Zhongtian and Ruiding, during the year ended 31 December 2017, Qingdao Zhongtian provided the financial services to Ruiding and obtained a loan of RMB600 million (the "Project Loan") from an independent third party trust scheme (refer to note 22), which was then transferred, at the instructions of Ruiding, to Ruikangjie as advanced payments made by Ruiding for the purchase costs of materials and equipment acquired and/or to be acquired from Ruikangjie, in connection with the construction of the Natural Gas Project of Ruiding. The Project Loan was obtained by Qingdao Zhongtian from the trust scheme on a back-to-back basis for Ruiding. Out of the proceeds of the Project Loan of RMB600,000,000 obtained from the trust scheme, Ruiding (as one of the beneficiaries of the trust scheme) contributed RMB120,000,000, representing 20% of the Project Loan, to the trust scheme. Ruiding has provided an unlimited corporate guarantee in favour of the trust scheme for the repayments of the principals of the entire Project Loan and the interest accruing at the applicable effective rate of 6.4% (i.e. 8% x (1–20%)) per annum on the Project Loan, which shall be the obligations of Ruiding for repaying to the trust scheme. Ruiding shall repay Qingdao Zhongtian for the entire Project Loan, together with the interests accruing thereon, at each instalment of not less than RMB200,000,000 on 31 May 2020, 31 May 2021 and 31 May 2022, respectively. The principals of Project Loan receivable from Ruiding, together with the interest accrued thereon and service charge as detailed below, are secured by the collateral of the business and its relevant assets of the Natural Gas Project of Ruiding, based on a pledge agreement entered into between Ruiding and Qingdao Zhongtian on 18 June 2018.

15. LOAN AND OTHER RECEIVABLES *(Continued)*

In consideration of the services rendered by Qingdao Zhongtian, Ruiding shall pay Qingdao Zhongtian a fee, as financial service income, which is recognised on a daily basis at RMB24,658 (inclusive of value-added tax) per day and straight-line basis over the contract term period of 10 years. During the year ended 31 December 2018, financial service income, net of value-added tax of RMB1,264,000 (2017: RMB653,000), amounting to RMB7,736,000 (2017: RMB3,847,000) was recognised and credited to the profit or loss for the year.

The Group assessed recoverability of the long-term loan and interest receivables, together with the service income receivable, totaled approximately RMB644,709,000 (2017: RMB629,433,000) by reference to the recoverable amount, being the fair value less cost of disposal, of the business and its relevant assets of Ruiding identified as a cash-generating unit, based on a valuation performed by CHFT Advisory And Appraisal Limited, an independent professional valuer with qualifications and experiences in valuing similar assets. Based on the assessment, the directors of the Company considered that the recoverable amount of the long-term long loan and interest receivable and the service income receivable exceeded the aggregate of their carrying amounts and accordingly, no provision for impairment on these assets was made as at 31 December 2018 (2017: Nil).

16. PREPAYMENT FOR CONSTRUCTION COSTS

	2018	2017
	RMB'000	RMB'000
Prepayment for construction costs	**–**	45,000

On 17 December 2017, the Group entered into a construction agreement with an independent third-party contractor to carry out construction works in relation to the land held as investment property under development (note 11) at a total cost of RMB150,000,000. An upfront payment of RMB45,000,000 was paid to an independent third party contractor in 2017 in accordance with the terms of the construction agreement. The construction works were planned to be started in April 2018, but were postponed by the Group during 2018 due to the facts that (a) the Government of Qingdao restricted all the construction activities in Qingdao for security reasons of the Shanghai Cooperation Organization (SCO) Summit which was scheduled and held in June 2018 in Qingdao, the PRC (the "Summit") and accordingly, the Group and the contractor entered into an agreement to cancel the construction agreement under which the contractor refunded RMB43,000,000 to the Group in May 2018; and (b) the Government of Qingdao announced in October 2018 for a massive change in land use for the district, where the Group's parcel of land is located and its use will be changed mainly from commercial to residential use, and the Group has to revise the overall development plan for the parcel of land which will also be re-approved by relevant authorities. The remaining balance is considered as irrecoverable and provision for impairment loss amounting to RMB2,000,000 (2017: Nil) was recognised and charged to the consolidated profit or loss for the year.

17. INVENTORIES

	2018 RMB'000	2017 RMB'000
Finished goods	–	29

18. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	31,188	6,661
Less: Allowance for doubtful debts (note (b))	(1,611)	(4,848)
Trade receivables, net (note (a) and note (c))	29,577	1,813
Loan interest receivables (note 15)	31,209	24,933
Other receivables	257	203
Trade and other receivables classified as loans and receivables	61,043	26,949
Prepayments and deposits	341	288
	61,384	27,237

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the date of revenue recognition and net of doubtful debts, is as follows:

	2018 **RMB'000**	2017 RMB'000
0–30 days	**3,162**	1,813
31–60 days	**3,162**	–
61–90 days	**3,162**	–
91–180 days	**9,485**	–
181–365 days	**10,606**	–
	29,577	1,813

The customer for which the trade receivables related to, was required to pay rentals to the Group in advance semi-annually in January and June each year during the relevant lease period.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Movements in the allowance for doubtful debts

	2018 **RMB'000**	2017 RMB'000
At 1 January	**4,848**	400
(Reversal of impairment loss)/impairment loss recognised	**(3,237)**	4,448
At 31 December	**1,611**	4,848

As at 31 December 2018, trade receivables of the Group amounting to RMB1,611,000 (2017: RMB4,848,000) were individually determined to be impaired. The individually impaired receivables were outstanding for over 365 days at the end of the reporting period or were due from customers with financial difficulties. During the year, the Group received settlements of RMB3,237,000 (2017: Nil) for these trade receivables for which full allowances were made in previous years and accordingly, reversal of specific allowances for impairment of RMB3,237,000 (2017: specific allowances for impairment RMB4,448,000) were recognised to the profit or loss.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2018 **RMB'000**	2017 RMB'000
Past due but not impaired		
Over 3 months to 1 year past due	**29,577**	1,813

At 31 December 2018, included in the trade receivables (net of impairment loss) were approximately RMB29,577,000 (2017: RMB1,813,000) being rentals receivable from Beijing Hengyuan Lizhen Network Technology Co., Ltd.* (北京亨元利貞網絡科技有限公司) (formerly known as Jinku Business Investment Co., Ltd.* (錦庫商業投資有限公司)) ("Hengyuan Lizhen") which leased all the commercial and office units and certain carparks of Zhongtian Software Park located in Qingdao (the "Leased Properties") for which all the rights of use of all the Leased Properties had been passed to Hengyuan Lizhen since 1 January 2016 and during the lease period from 1 January 2016 to 31 December 2018 under a lease agreement entered into between Qingdao Zhongtian Software Park Co., Ltd. ("Zhongtian Software Park"), an indirect wholly-owned subsidiary acquired by the Company in March 2016, and Hengyuan Lizhen on 26 October 2015 (the "Master Lease Agreement"). During the lease period of the Master Lease Agreement and up to 31 December 2018, Hengyuan Lizhen made payments for rentals of the Leased Properties totalling RMB91,211,000, leaving RMB29,577,000 unpaid and payable to Zhongtian Software Park as at 31 December 2018 which were overdue. Up to the date of approval for the consolidated financial statements, Zhongtian Software Park and Hengyuan Lizhen are still in negotiations for full settlement of the outstanding rentals payable by Hengyuan Lizhen which tentatively indicated to repay the outstanding rentals by 30 June 2019. As disclosed in note 31(b), an indirect wholly-owned subsidiary of Hengyuan Lizhen, being a hotel company (the "Hotel Company"), has provided an irrevocable undertaking guarantee in favour of Zhongtian Software Park that the Hotel Company shall use all its assets, including but not limited to its hotel properties, as securities for the full settlement of the outstanding rentals owing by Hengyuan Lizhen to Zhongtian Software Park. In the opinion of the directors of the Company, the Hotel Company has adequate net assets and abilities to settle the outstanding rentals owing by Hengyuan Lizhen to Zhongtian Software Park, taking into account the professional valuation on market value of the hotel properties owned by the Hotel Company conducted by an independent valuer in November 2018, and the related first mortgaged debts of the Hotel Company. After considering the rentals received from Hengyuan Lizhen thus far and the irrevocable undertaking guarantee provided by an indirect wholly-owned subsidiary of Hengyuan Lizhen for full settlement of remaining the rentals receivable from Hengyuan Lizhen, the directors of the Company are of the opinion that no provision for impairment on the remaining rentals receivable from Hengyuan Lizhen was required at 31 December 2018.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(c) Trade receivables that are not impaired (Continued)

Based on the information and documents made available to the Group, during the lease period of the aforesaid Master Lease Agreement, Hengyuan Lizhen has been beneficially owned and ultimately controlled by Mr. Shang, an independent third party individual (the "Hengyuan Lizhen Owner"), over whom the top management of the Group and/or substantial shareholders of the Company have no control or significant influence, and the Hengyuan Lizhen Owner is not a substantial shareholder of the Company. The Hengyuan Lizhen Owner and Ms. Yam, the spouse of a non-executive and independent director of the Company, entered into a trust agreement in 2012 (the "Trust Agreement") pursuant to which the Hengyuan Lizhen Owner appointed Ms. Yam to acquire and hold the entire registered capital of Hengyuan Lizhen on trust of the Hengyuan Lizhen Owner. Based on the legal opinion sought by the Company, in respect of the shareholding and management of Hengyuan Lizhen, Ms. Yam shall hold the shareholding of Hengyuan Lizhen as nominee on trust of the Hengyuan Lizhen Owner and she shall only act according to the directions and instructions from the Hengyuan Lizhen Owner under the Trust Agreement. Based on the official records maintained at the Bureau of Industry and Commerce Administration, since 18 July 2018, the sole registered owner of the entire registered capital of Hengyuan Lizhen has been changed back to the Hengyuan Lizhen Owner. Both Mr. Shang, being ultimate owner of Hengyuan Lizhen, and his trustee (Ms. Yam) are not the employees of the Group during the lease the period of the Master Lease Agreement and up to the date of approval of the consolidated financial statements. The directors of the Company considered that Hengyuan Lizhen is not a related party of the Group since the inception of the Master Lease Agreement.

19. CASH AND CASH EQUIVALENTS

		2018 RMB'000	2017 RMB'000
(a)	**Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows:**		
	Cash at bank and on hand	**15,465**	25,341

(b) Reconciliation of liabilities arising from financing activities

	Interest payables RMB'000 (note 20)	Bank and other borrowings RMB'000 (note 22)
At 1 January 2017	14,805	181,108
Interests recognized and charged to profit or loss	40,130	–
Changes from financing cash flow:		
– proceeds from bank and other borrowings	–	724,000
– repayments of bank and other borrowings	–	(64,658)
– interests paid	(43,525)	–
At 31 December 2017 and 1 January 2018	11,410	840,450
Interests recognised and charged to profit or loss	48,238	–
Changes from financing cash flows:		
– proceeds from bank and other borrowings	–	10,000
– repayments of bank and other borrowings	–	(46,300)
– interests paid	(58,475)	–
At 31 December 2018	1,173	804,150

20. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	RMB'000
Trade payables	**2,567**	2,564
Other payables	**19,528**	5,084
Loan interest payables	**1,173**	11,410
Financial liabilities at amortised cost	**23,268**	19,058
Receipt in advance and accruals	**617**	470
Other tax payables		
– value-added tax and property tax payables	**27,127**	8,462
– land appreciation tax payables	**9,609**	11,101
– others	**1,892**	351
	38,628	19,914
	62,513	39,442

Included in loan interest payable is accrued interest of RMB1,173,000 (2017: RMB6,267,000) payable to the trust scheme as at 31 December 2018.

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

21. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position:

	2018 RMB'000	2017 RMB'000
At beginning of the year	**5,788**	5,190
Provision for current tax	**781**	5,932
Paid during the year	**–**	(5,334)
At end of the year	**6,569**	5,788

(b) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Investment properties RMB'000	Leasehold land and buildings RMB'000	Total RMB'000
At 1 January 2017	190,525	1,785	192,310
Charged to profit or loss (note 9(a))	22,742	(6)	22,736
At 31 December 2017 and 1 January 2018	213,267	1,779	215,046
Effect of temporary differences recognised on revaluation of land and buildings	–	196	196
Transfer upon reclassification from owner-occupied property to investment properties	1,975	(1,975)	–
Charged to profit or loss (Note 9(a))	26,869	–	26,869
At 31 December 2018	242,111	–	242,111

(c) Deferred tax assets not recognised

As at 31 December 2017 and 2018, the Group did not have material unrecognised deferred tax assets.

22. BANK AND OTHER BORROWINGS

As at 31 December 2018, the Group had bank and other borrowing as follows:

	2018	2017
	RMB'000	RMB'000
Secured bank borrowings	**194,150**	200,450
Secured borrowing from an other financial institution	**10,000**	40,000
Secured borrowing from a trust scheme (Note 15)	**600,000**	600,000
	804,150	840,450

At 31 December 2018, interest-bearing bank and other borrowings were due for repayment as follows:

	2018	2017
	RMB'000	*RMB'000*
Carrying amounts repayable:		
Within 1 year	**83,300**	104,300
After 1 year but within 2 years	**207,300**	133,500
After 2 years but within 5 years	**390,400**	597,700
After 5 years	**123,150**	4,950
	804,150	840,450
Less: Current portion	**(83,300)**	(104,300)
Non-current portion	**720,850**	736,150

As at 31 December 2018, bank and other borrowings were interest bearing at 4.75% to 11% (2017: 4.75% to 9.0%) per annum.

22. BANK AND OTHER BORROWINGS *(Continued)*

A bank borrowing of RMB12,150,000 (2017: RMB13,950,000) has been secured by certain investment properties (note 11), leasehold land and buildings held under operating lease. Bank borrowings of RMB182,000,000 (2017: RMB186,500,000) have been secured by certain investment properties (note 11) or/and guaranteed by Mr. Chen Jun, the ultimate controlling party of the Company.

Borrowings amounting to RMB600,000,000 (2017: RMB600,000,000) and RMB10,000,000 (2017: RMB40,000,000) payable to the trust scheme and another financial institution, respectively, have been secured by certain investment properties of the Group (note 11) and personal guarantees provided by Mr. Chen Jun, a controlling shareholder and director of the Company, and his spouse. As part of the arrangements for the other borrowing of RMB600,000,000 obtained from the trust scheme to which Ruiding (as one of the beneficiaries of the trust scheme) contributed RMB120,000,000 which is subordinated to the remaining scheme fund of RMB480,000,000 contributed by the other independent third party beneficiary of the trust scheme, Ruiding has also provided an unlimited guarantee in favour of the trust scheme for the repayments of the borrowing of RMB600,000,000 (2017: RMB600,000,000) and the interests thereon at the effective applicable rate of 6.4% per annum, payable by Qingdao Zhongtian, as referred to note 15. The principals of the Project Loan from the trust scheme will be repaid by Qingdao Zhongtian by the following instalments:

– RMB120,000,000 on 28 June 2020;

– RMB120,000,000 on 28 June 2021; and

– RMB360,000,000 on 28 June 2022

which shall be repaid by Ruiding to Qingdao Zhongtian, as referred to note 15.

In the opinions of the directors of the Company, neither the Company, the Group, any of directors of the Company nor the top management of the Group has any beneficial interests in and relationship with all the fund contributors and beneficiaries, including Ruiding, of the trust scheme.

23. SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is registered capital unless otherwise stated.

Name	Form of business structure	Class of shares held	Place of incorporation and business	Particulars of issued and paid up capital	Interest held directly	Interest held indirectly	Principal activities
Success Advantage Limited	Limited liability company	Ordinary	British Virgin Islands ("BVI")	100 shares of US$1 each	100%	–	Inactive
New East Glory Limited	Limited liability company	Ordinary	BVI	1 share of US$1 each	100%	–	Investment holding
Great Miracle Holdings Limited	Limited liability company	Ordinary	BVI	1 share of US$1 each	–	100%	Investment holding
Shan Dong Travel Services Holdings Limited	Limited liability company	Ordinary	Hong Kong	10,000 shares	–	100%	Investment holding
青島中天源網絡科技有限公司*	Wholly foreign-owned enterprise	Registered	PRC	US$423,200	–	100%	Sale of intelligent electronic products and furniture and fixtures and investment holding
Qingdao Hai Yi Investment and Consultancy Co., Ltd.#	Limited liability company	Registered	PRC	RMB25,000,000	–	100%	Property investment
Golden Century Trade Limited	Limited liability company	Ordinary	BVI	1 share of US$1 each	–	100%	Inactive
Best Sight Limited	Limited liability company	Ordinary	Hong Kong	1 share of HK$1 each	–	100%	Investment holding
Qingdao Zhongtian Enterprise Development Co., Ltd.*	Wholly foreign-owned enterprise	Registered	PRC	RMB170,876,000	–	100%	Property development and investment holding
Qingdao Zhongtian Huili Technology Development Company Limited*	Wholly foreign-owned enterprise	Registered	PRC	RMB50,000,000	–	100%	Investment holding
Qingdao Zhongtian Innovation Company Limited#	Limited liability company	Registered	PRC	RMB100,000,000	–	100%	Investment holding
Qingdao Zhongtian Software Park Co., Ltd.#	Limited liability company	Registered	PRC	RMB10,000,000	–	100%	Property development, leasing and investment

* Registered under the laws of the PRC as a wholly foreign-owned enterprise.

\# Registered under the laws of the PRC as a limited liability company.

24. SHARE CAPITAL

	2018 No. of shares '000	**2018** Amount HK$'000	2017 No. of shares '000	2017 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000**	**100,000**	10,000,000	100,000

	No. of shares '000	**Amount RMB'000**	No. of shares '000	Amount RMB'000
At 1 January and 31 December	**410,209**	**3,667**	410,209	3,667

25. RESERVES

The Group

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

The Company

Details of the changes in the Company's individual components of reserves between the beginning and the end of the year are set out below:

	Share premium RMB'000 (note 25(a))	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2017	328,194	(91,873)	236,321
Loss for the year	–	(1,204)	(1,204)
At 31 December 2017 and 1 January 2018	328,194	(93,077)	235,117
Loss for the year	–	(3,390)	(3,390)
At 31 December 2018	328,194	(96,467)	231,727

25. RESERVES *(Continued)*

Nature and purpose of reserves are as follows:

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Exchange reserve

The exchange reserve represents foreign exchange differences arising from the translation of the financial statements denominated in foreign currencies other than RMB.

(c) Property revaluation reserve

During the year ended 31 December 2013, certain properties previously occupied by the Group as owner-occupied properties were transferred to investment properties, and a revaluation surplus of RMB2,203,000 was credited to property revaluation reserve to account for the difference between the carrying amounts and the fair values of the properties at the date of change in use, determined using market comparison approach by an independent firm of valuers, net of tax liability of RMB551,000 arising from gain on revaluation of properties.

During the year ended 31 December 2018, an owner-occupied property was reclassified to investment properties with a revaluation surplus of RMB1,176,000, which was credited to property revaluation reserve representing the difference between the carrying amount and the fair value of the property at the date of change in use as investment property at the inception of a new lease, determined using market comparison approach by an independent firm of valuers, net of tax liability of RMB196,000 arising from gain on revaluation of the property.

25. RESERVES *(Continued)*

(d) Distributability of reserves

The Company's reserves available for distribution represent the share premium and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, as at 31 December 2018, the Company had reserves available for distribution to equity shareholders of RMB231,727,000 (2017: RMB235,117,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of cash and cash equivalents and equity.

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

26. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a 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. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

27. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2018 and 2017 are as follows:

	2018	2017
	RMB'000	RMB'000
Authorised but not contracted for (note (a))	**182,754**	33,038
Contracted but not provided for (note (b))	**2,611**	107,917

Note:

(a) As at 31 December 2018 and 2017, the Group had authorised but not contracted for capital commitments for construction costs relating to the land held as investment property under development.

(b) At 31 December 2017, contracted but not provided for capital commitment included an amount of RMB150,000,000 under a construction agreement which was terminated during the year ended 31 December 2018, as further detailed in note 16.

28. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2018, the Group's total future minimum lease receivables and payables under non-cancellable operating leases are as follows:

	2018	2017
	RMB'000	RMB'000
As lessor:		
Within 1 year	**1,402**	41,717
After 1 year but within 5 years	**3,099**	3,468
Over 5 years	**684**	1,150
	5,185	46,335
As lessee:		
Within 1 year	**192**	120

28. COMMITMENTS UNDER OPERATING LEASES *(Continued)*

Operating lease receivables represent rentals receivable by the Group for its investment properties under operating lease arrangements, with leases negotiated for 3 to 10 years and rentals are fixed over the lease terms and do not include contingent rentals.

Operating lease payables represent rentals payable by the Group for its office and a vehicle for business purpose. Leases are principally negotiated for 1 year and rentals are fixed over the lease terms and do not include contingent rentals.

29. PLEDGED OF ASSETS

As at 31 December 2018 and 2017, the Group's properties with the following carrying amounts were pledged to secure bank and other borrowings (note 22).

	2018	2017
	RMB'000	RMB'000
Investment properties (note 13)	**787,040**	790,900
Leasehold land and building held under operating lease (note 14)	**–**	8,069
	787,040	798,969

30. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the directors are of the view that related parties of the Group include the following individuals:

Name of related party	Relationship with the Group
Chen Jun	Son of Chen Dezhao, an executive director and chief executive office of the Company since 2 November 2017, legal representative and director of the PRC subsidiaries, and ultimate controlling party of the Company
Chen Dezhao	Executive director of the Company, father of Chen Jun
榮陞投資有限公司	Chen Jun, an executive director of the Company, has beneficial interest
青島海逸物業管理有限公司	Chen Dezhao, an executive director of the Company, and his spouse, Wang Guiju, have beneficial interests
輝利融資有限公司	Chan Chak Kwan, an independent non-executive director of the Company, has beneficial interests

Apart from those as disclosed elsewhere in the consolidated financial statements, the Group has the following related party balances and transactions:

(a) Amount due to a director

	2018	2017
	RMB'000	RMB'000
Chen Dezhao	**603**	323

The amounts due are unsecured, interest-free and repayable on demand.

(b) Amount due to ultimate controlling party of the Company

	2018	2017
	RMB'000	RMB'000
Chen Jun	**21,064**	15,244

The amount due is unsecured, interest-free and repayable on demand.

30. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amounts due from related companies

			Maximum amount outstanding	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
青島海逸物業管理有限公司	**116**	59	**116**	59
輝利融資有限公司	**6**	–	**6**	–
	122	59		

These amounts have been included in other receivables under trade and other receivables.

(d) Transactions with related companies

Name of party	Nature of transactions	2018 RMB'000	2017 RMB'000
榮陞投資有限公司	Rental expense	**141**	141
青島海逸物業管理有限公司	Management fee	**68**	–
輝利融資有限公司	Legal and professional fee	**17**	–

As at 31 December 2018, the total minimum lease payments under non-cancellable operating lease payable to a related Company is as follows:

	2018 RMB'000	2017 RMB'000
榮陞投資有限公司		
Within 1 year	**141**	141

In the opinion of the directors of the Company, the above transactions were carried out in the normal course of the Group's business and conducted at the terms mutually agreed between the Group and the respective party.

(e) Key management personnel remuneration

Remuneration for key management personnel, including amount paid to the Company's directors as disclosed in note 10 is as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	**863**	495
Post-employment benefits	**6**	18
	869	513

31. CONTINGENCIES

(a) Qingdao Zhongtian Software Park Co., Ltd ("Software Park"), an indirect wholly-owned subsidiary of the Company, has a dispute with its tenant, Beijing Hengyuan Lizhen Network Technology Co., Ltd.* (北京亨元利貞網絡科技有限公司) (formerly known as Jinku Business Investment Co., Ltd.* (錦庫商業投資有限公司)) ("Hengyuan Lizhen") which leased certain premises of the Group located at No.38 Shandongtou Road, Laoshan District, Qingdao, the PRC under a lease contract dated 26 October 2015 entered into between Hengyuan Lizhen (as a tenant) and Software Park (as a landlord). After 1 April 2016 when the business tax was replaced by value-added tax ("VAT") in the PRC, under the applicable VAT rules and regulations, Software Park can opt to pay the VAT on rental income generating from the leased properties, which were completed before 30 April 2016, at the applicable rate of 5%. However, Hengyuan Lizhen insists that Software Park shall issue the VAT invoices on the rentals at the newly applicable rate of 11% as for those properties completed after 1 May 2016. Due to the fact that Software Park and Hengyuan Lizhen have been in disagreement as to the type of VAT invoices regarding the rental income generated after 1 May 2016, Software Park has not yet issued the relevant VAT invoice to Hengyuan Lizhen and therefore, Software Park has not yet paid the relevant VAT and property taxes arising from the rental income received and receivable from Hengyuan Lizhen.

In the opinion of the Directors of the Company, adequate provisions for VAT and property tax and other levies arising from rental income received and receivable from Hengyuan Lizhen have been made in the consolidated financial statements for the year ended 31 December 2018.

In addition, during the year, Qingdao Tax Bureau conducted an investigation on the tax matters relating the leasing business of Software Park. Based on the tax investigation findings issued by Qingdao Tax Bureau on 21 January 2019, Software Park was required to pay a total sum of RMB639,159.02 which was provided for in the consolidated financial statements of the Company for the year ended 31 December 2018 and paid subsequently by Software Park.

(b) At 31 December 2018, Hengyuan Lizhen owed Software Park for outstanding rentals totaling RMB29,575,508.95. Software Park has been in negotiation, for imminent settlement, with Hengyuan Lizhen and Hengyuan Lizhen has never disputed the accuracy of the outstanding rentals payable to Software Park. As security for the settlement of the outstanding rentals by Hengyuan Lizhen, on 18 March 2019, Software Park and a hotel company, an indirect wholly-owned subsidiary of Hengyuan Lizhen, entered into a guarantee contract under which the hotel company has provided an irrevocable undertaking in favour of Software Park that the hotel company shall use all its assets, including but not limited to its hotel properties, to honour its undertaking obligations for the full repayment of the outstanding rentals receivable from Hengyuan Lizhen. Based on the information made available to Software Park, the hotel company has net assets which exceed the outstanding rentals payable by Hengyuan Lizhen to Software Park. In the opinion of the Directors of the Company, no impairment on the outstanding rentals receivable from Hengyuan Lizhen is considered necessary at 31 December 2018.

32. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 RMB'000	2017 RMB'000
Non-current asset			
Interests in subsidiaries, at cost less impairment		**211,500**	213,160
Current assets			
Other receivables		**214**	175
Amounts due from subsidiaries		**36,151**	34,550
Cash and cash equivalents		**199**	257
		36,564	34,982
Current liabilities			
Other payables		**1,369**	2,007
Amount due to a director		**603**	323
Amount due to a subsidiary		**78**	80
Amount due to ultimate controlling party of the Company		**10,620**	6,948
		12,670	9,358
Net current assets		**23,894**	25,624
Net assets		**235,394**	238,784
Capital and reserves			
Share capital	24	**3,667**	3,667
Reserves	25	**231,727**	235,117
Total equity		**235,394**	238,784

33. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
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, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2020
4 Effective for annual periods beginning on or after 1 January 2021

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

33. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

(Continued)

HKFRS 16 Leases

As disclosed in note 2(f), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

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

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 28, as at 31 December 2017 the Group’s future minimum lease payments under non-cancellable operating leases amount to RMB120,000, the amount is payable within 1 year, which is not expected to be impacted by the new standard.

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

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The directors of the Company do not anticipate that the application of both interpretations will have a material impact on the Group’s financial statements.

33. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

(Continued)

Amendments to HKAS 1 and HKAS 8 Definition of a Business

HKAS 1 was amended in 2015 to clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contains a list of specific requirements or describes them as minimum requirements. On the other hand, an entity should consider whether it is necessary to provide disclosures in addition to those specifically required by an HKFRS in order to help users understand the impact of a particular transaction or event on the entity's financial position and financial performance.

The amendments also highlight that when an entity decides how it aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances. In particular, an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions. Obscuring material information with immaterial information in financial statements will make the material information less visible and will therefore make the financial statements less understandable.

Amendments to HKFRS 9 Prepayment features with negative compensation

The amendments to HKFRS 9, Prepayment features with negative compensation, are a direct consequence of the identical amendments made to IFRS 9 by the IASB. Negative compensation arises when the party effecting the prepayment in effect receives a benefit from the other party (e.g. when the prepayment amount is based on the fair value of the loan at the date of prepayment which may be less than the amount that would have been repaid at maturity). The amendments require entities to measure financial assets with such a prepayment feature at amortised cost or at fair value through other comprehensive income (depending on the business model under which the financial assets are managed), if certain criteria are met. Under the current HKFRS 9 requirements, prepayment features with negative compensation would result in a financial asset being classified as at fair value through profit or loss.

33. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

(Continued)

Amendments to HKAS 19 Plan amendment, curtailment or settlement

The amendments clarify that:

- On amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period; and

- The effect of the asset ceiling cost is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

Amendments to HKAS 28 Long-term interest in associates and joint ventures

The amendments will affect entities that finance their associates and joint ventures with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or "LTI"). The amendments, which address equity-accounted loss absorption by LTI, state that LTI are in the scope of both HKFRS 9 and HKAS 28 and explain the annual sequence in which both standards are to be applied. In effect, this is a three-step annual process:

1. Apply HKFRS 9 independently, ignoring any prior years' loss absorption recognised in accordance with HKAS 28.

2. True-up prior years' HKAS 28 loss allocation in the current year, if any, as the carrying value of LTI may have changed after Step 1. This may involve recognising more prior years' losses, reversing these losses or reallocating them between different LTI instruments.

3. Allocate any current year's HKAS 28 losses to the extent that the remaining LTI balances allows. Any current year's HKAS 28 profits are first to reverse any unrecognised prior years' losses and then to allocate against LTI.

33. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

(Continued)

Annual Improvements to HKFRSs 2015-2017 Cycle Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

This cycle of annual improvements contains amendments to four standards, namely HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The amendments to HKFRS 3 and HKFRS 11 clarify whether the previously held interest in a joint operation, which is a business as defined in HKFRS 3, should be remeasured under the following scenarios:

- When a joint operator obtains control over the joint operation; or
- When an investor which participated in (but did not jointly control) the joint operation subsequently obtains joint control.

The amendments to HKAS 12 clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.

The amendments to HKAS 23 clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

34. ULTIMATE CONTROLLING PARTY

At the end of the reporting period and at the date of approval for the consolidated financial statements, the ultimate controlling party of the Company is Mr. Chen Jun.

FINANCIAL SUMMARY

For the year ended 31 December 2018

	For the year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Results					
Revenue	12,200	3,855	31,414	43,429	**45,705**
Profit/(loss) from operations	(17,977)	(7,093)	102,050	152,279	**30,327**
Finance costs	–	(291)	(16,124)	(40,130)	**(48,238)**
(Loss)/profit before income tax	(17,977)	(7,384)	85,926	112,149	**(17,911)**
Income tax expense	(717)	(203)	(28,982)	(28,668)	**(27,651)**
(Loss)/profit for the year attributable to owners of the Company	(18,694)	(7,587)	56,944	83,481	**(45,562)**

	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Assets and liabilities					
Total assets	141,025	179,669	739,071	1,502,523	**1,478,527**
Total liabilities	(33,788)	(38,452)	(436,003)	(1,116,293)	**(1,137,010)**
	107,237	141,217	303,068	386,230	**341,517**

PARTICULARS OF INVESTMENT PROPERTIES

Address	Use	Lease Term	Approximate gross floor area	Group's interest
11 commercial units, 24 office units, 244 underground car parking spaces and an underground storage unit of Zhongtian Building No. 38 Shandongtou Road Laoshan District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	22,749 sq.m.	100%
All office units on Level 19 (currently known as 21st Floor) Huaren International Building No. 2 Shandong Road Shinan District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	1,511 sq.m.	100%
A parcel of land No. 877 Huihai Road Chengyang District Qingdao City Shandong Province The PRC	Commercial use	Medium-term lease	91,165 sq.m.	100%
Unit 2707 of Yang Guang Building NO. 61 Xianggang Middle Road Shinan District Qiangdao City Shandong Province The PRC	Commercial use	Medium-term lease	365 sq.m.	100%