NEW CITY DEVELOPMENT GROUP LIMITED

新城市建設發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

ANNUAL REPORT 2018

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Han Junran (Chairman)
Mr. Luo Min
Mr. Seto Man Fai (resigned on 10 May 2018)

Independent Non-Executive Directors
Mr. Chan Yiu Tung, Anthony
Mr. Zheng Qing (resigned on 11 February 2019)
Dr. Ouyang Qingru
Mr. Zhang Jing
Mr. Leung Kwai Wah Alex

COMPANY SECRETARY

Ms. Chan Yim Kum

REGISTERED OFFICE

P.O. Box 31119 Grand Pavilion, Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit D, 17/F, MG Tower,
133 Hoi Bun Road,
Kwun Tong,
Kowloon,
Hong Kong

AUDITORS

World Link CPA Limited
5/F., Far East Consortium Bldg.,
121 Des Voeux Road,
Central,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank
China Citic Bank International Limited

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
North Point, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Han Junran
Ms. Chan Yim Kum

Financial Highlights

	2018 HK$'000	2017 HK$'000	Change
Revenue	**91,764**	39,076	134.83%
Profit from operations	**49,922**	40,055	24.63%
Profit for the year	**13,711**	23,010	(40.41%)
Total equity	**689,206**	663,737	3.84%
Total assets	**1,261,431**	1,104,147	14.24%
Total liabilities	**(572,225)**	(440,410)	29.93%
Basic earnings per share (HK cents)	**0.41**	0.70	(41.43%)

Chairman's Statement

BUSINESS AND OPERATION REVIEW

BUSINESS REVIEW

The Group recorded a turnover of approximately HK$91,764,000 and recorded a profit after tax of approximately HK$13,711,000 for the year.

Major business arrangements

Continuing Connected Transactions

On 31 May 2018, new tenancy agreements (the "New Tenancy Agreements") were respectively entered into (i) between New Rank Services Limited (a wholly-owned subsidiary of the Company) as tenant and Winrich Investments Limited as landlord for leasing of the office premises; (ii) between New Rank Services Limited as tenant and Goldrich Investments Limited as landlord for leasing of the office premises and car parking space; and (iii) between New Rank Services Limited as tenant and Jiacheng Jiaxin International Property Management (Hong Kong) Limited as landlord for leasing of the staff quarter and car parking space. The New Tenancy Agreements are for a term of two years commencing from 1 June 2018. All of Winrich Investments Limited, Goldrich Investments Limited and Jiacheng Jiaxin International Property Management (Hong Kong) Limited are companies indirectly wholly-owned by an associate of a connected person of the Company, and therefore the transactions contemplated under the New Tenancy Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

OUTLOOK

The Group's wholly-owned subsidiary, Guangdong Changliu Investment Company Limited ("Changliu"), currently is the Group's main operating unit. Given that the steady growth in property market in China, and the completion of renovation project in Changliu Park in the near future, which was heavily invested by the Group, the Group's rental and related management service income from Changliu slightly increased as compared to last year. Leasing will continue to be the main commercial activity of Changliu. The Group will also carry on business projects focusing on cultural industries in various forms in the Changliu Park. We expect that the rental and other income from major cities in China will rise steadily in the coming year.

Furthermore, the Company has also invested in property development in Zhuhai and will continue to invest in the PRC, especially in other properties in Greater Bay Area, to explore new business profit models for culture and real estate.

Chairman's Statement

The Company will also focus on cultural and innovative projects in the coming year. We realize that each property project has its own characteristics as residents who are in different living places, of different ages and from different social groups have distinct hobbies and habits, which creates unique cultural features in various projects. Therefore, in respect of the Company's development and taking into account our existing resources and property projects under progress in different regions, we, on one hand, will continue to participate in the property development market, and on the other hand, will integrate cultural features in our property development projects.

We hope our cultural projects, such as providing children's creativity trainings and providing venues for microfilms-shooting, will gear towards the core values of our business, in different aspects from education, health to various life facilities as well as products, which enable us not only to provide commercial or residential zones as a traditional developer, but also to enhance the brand value of the Company.

Besides, a subsidiary was established by the Group to mainly launch and operate sale of buses. During the year under review, the business contributed approximately HK$49 million in turnover. It provides a new source of income and reduces the Group's reliance on the rental income from Changliu. We are optimistic about the company's prospects. The management will continue to strive for higher returns for the Group.

Investment properties in Luoyang

With regard to Luoyang Properties, on 5 December 2017, the Group submitted a construction plan to洛陽市城鄉規劃局 ("洛陽規劃局"). After 洛陽規劃局's review, the Group was instructed to modify certain aspects of the construction plan. On 23 June 2018, the Group has been further instructed by洛陽新區中央商務區規劃建設辦公室 to submit a revised construction plan to洛陽市城鄉一體化示範區商務中心區辦公室for approval and the document was submitted on 17 July 2018. Up to the date of this announcement, the construction plan of the Luoyang Properties has yet been approved by洛陽市城鄉一體化示範區商務中心區辦公室.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the management team and staff for their dedication and contribution to the Group.

Han Junran
Chairman

Management Discussion and Analysis

FINANCIAL REVIEW

Result

For the year under review, the Group reported a turnover which represented the rental income and related management service income and sales of buses of approximately HK$41,925,000 and HK$49,839,000 (2017: HK$39,076,000 and Nil). The Group's net profit for the year was approximately HK$13,711,000 (2017: HK$23,010,000). The basic earnings per share for the year was approximately 0.41 HK cents (2017: 0.70 HK cents). Administrative expenses was approximately HK$67,436,000 (2017: HK$27,594,000). Finance costs was approximately HK$21,917,000 (2017: HK$13,952,000).

Liquidity, Financial Resources and Funding Requirements

As at 31 December 2018, the Group had obligations under hire purchase contracts of approximately HK$3,686,000 (2017: Nil).

As at 31 December 2018, the Group's total assets was approximately HK$1,261,431,000 (2017: HK$1,104,147,000) and total liabilities were of approximately HK$572,225,000 (2017: HK$440,410,000). As at 31 December 2018, the cash and bank balances was approximately HK$72,603,000 (2017: HK$35,684,000) and the current ratio (current assets/current liabilities) was 5.15 as at 31 December 2018 (2017: 2.23).

Pledge of Assets

As at 31 December 2018, the Group's investment properties located in Guangzhou (note 19a) were pledged to secure bank borrowings, details of which are set out in note 28 to the consolidated financial statement. And the finance lease payable was secured by the leased motor vehicle with a carrying amount of approximately HK$3,686,000 (2017: Nil).

Gearing Ratio

The gearing ratio (net debt/capital and net debt) was 33% as at 31 December 2018 (2017: 27%).

Capital Structure

There is no change in the capital structure of the Company.

Exchange Risks

The majority of the Group's operations are located in the People's Republic of China (the "PRC") and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assessing exchange risks.

Dividends

The directors did not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

Management Discussion and Analysis

Prospect

The management of the Company continues to allocate resources mainly in city development and to identify business opportunities which are in line with its long established development strategy. Looking forward, the Group will adhere to its sale of buses business and cultural industry development plan implemented in the current year. The Group will also actively develop real estate development business and explore profitable projects in the design culture field, so as to enhance the Company's financial performance and generate optimal returns for its shareholders.

Employees

As at 31 December 2018, the Group has employed about 52 (2017: 50) employees in Hong Kong and PRC. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

Significant Investments and Material Acquisitions

The Group did not have any significant investments or acquisitions during the year ended 31 December 2018.

Contingent Liabilities

Details of the contingent liabilities are set out in note 35 to the consolidated financial statements.

Commitments

Details of the commitments are set out in notes 37 and 38 to the consolidated financial statements.

ENVIRONMENTAL PERFORMANCE

Details of environmental performance are set out in the Environmental, Social and Governance Report on pages 18 to 25.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to complying with the requirements of the Personal Data (Privacy) Ordinance, and ordinance relating to disability, sex, and family status, as well as the Employment Ordinance, the Minimum Wage Ordinance and well-being of its employees. The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and guidelines issued by the Office of the Privacy Commissioner for Personal Data, with a view to protecting the privacy of its employees and customers, etc. The Group has also complied with the Stamp Duty Ordinance, Rating Ordinance and Inland Revenue Ordinance in respect of renting of premises during the year ended 31 December 2018. During the year ended 31 December 2018, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

Corporate Governance Report

CORPORATE GOVERNANCE

The Company has complied with all the code provisions ("Code Provisions") as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules of the Stock Exchange, save for the deviations listed below:

The Chairman of the Company is also the chief executive officer of the Company, which deviates from Code Provision A.2.1 which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As the current nature of the Group's business is not complicated, the Board considers that the current structure is sufficient for monitoring and controlling the operation of the Group. The Company will review the structure from time to time and will make necessary arrangements to observe the provisions of the Listing Rules whenever necessary.

According to the Articles of Association of the Company, the non-executive directors of the Company are not appointed for specific terms. Thus, they are deviated from Code Provision A.4.1 which stipulates that non-executive directors should be appointed for a specific term, subject to re-election and Code Provision A.4.2 which stipulates that all directors appointed to fill a casual vacancy shall hold office only until the next following general meeting and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, in view of the fact that non-executive directors are subject to retirement by rotation as stipulated in the Company's Articles of Association, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code Provisions. The Company will review its Articles of Association from time to time and will make necessary amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

In respect of Code Provision A.6.7 of the CG Code, three Independent Non-executive Director did not attend the annual general meeting of the Company held on 26 June 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of the Directors, the Directors have complied with the Model Code throughout the year ended 31 December 2018.

Corporate Governance Report

PUBLICATION OF THE ANNUAL REPORT

This Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company (www.newcitygroup.com.hk). The 2018 Annual Report will be despatched to our Shareholders on or before 30 April 2019 and will be available at the websites of the Stock Exchange and the Company.

THE BOARD OF DIRECTORS

Composition and role of the Board

The Board is responsible for the overall strategic development and business operation of the Group and also monitors the financial performance and control on business operation. The Board will from time to time review the Company's governance practices and will provide complete and sufficient information to its members so as to ensure effective performance of their responsibilities. Currently, the Board is comprised of two Executive Directors and four Independent Non-Executive Directors, which includes:

Executive Directors	:	Mr. Han Junran (Chairman) Mr. Luo Min Mr. Seto Man Fai (resigned on 10 May 2018)
Independent Non-Executive Directors	:	Mr. Chan Yiu Tung, Anthony Mr. Zheng Qing (resigned on 11 February 2019) Dr. Ouyang Qingru Mr. Zhang Jing Mr. Leung Kwai Wah Alex

Biographical details (including age, gender and length of service) of the Board members are set out on pages 26 to 27 of this annual report.

Corporate Governance Report

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three Independent Non-Executive Directors, together with the requirements of Rule 3.10(2) of the Listing Rules stipulating that at least one of the Independent Non-Executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. The Board considers that each Independent Non-Executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

The Company has received from each Independent Non-Executive Director an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the Executive Directors, senior management and certain specific responsibilities to the Board Committees.

DIRECTORS' TRAINING

According to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a Director of a listed company.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2018 to the Company.

The Company has also continuously updated the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

The individual training record of each Director received for the year ended 31 December 2018 is summarised below: –

Names of Directors	**Attending or participating in seminars/conferences/ corporate events or visits/ reading relevant to the business/Directors' duties**
Executive Directors:	
Mr. Han Junran *(Chairman)*	✓
Mr. Luo Min	✓
Mr. Seto Man Fai (resigned on 10 May 2018)	N/A
Independent Non-Executive Directors:	
Mr. Chan Yiu Tung, Anthony	✓
Mr. Zheng Qing (resigned on 11 February 2019)	✓
Dr. Ouyang Qingru	✓
Mr. Zhang Jing	✓
Mr. Leung Kwai Wah Alex	✓

Corporate Governance Report

During the year ended 31 December 2018, 3 full Board meetings were held by the Company and complies with the Code Provision A.1.1. The 2018 annual general meeting was held by the Company on 26 June 2018. The Company has already established a profound regime to ensure effective communication among the Directors.

The attendance record of each Director at the Board meetings and the 2018 annual general meeting is as follows:

Names of Directors	Attendance/Number of Board meetings	Attendance of 2018 annual general meeting
Mr. Han Junran	6/6	✓
Mr. Luo Min	5/6	–
Mr. Seto Man Fai (resigned on 10 May 2018)	2/3	N/A
Mr. Chan Yiu Tung, Anthony	2/6	–
Mr. Zheng Qing (resigned on 11 February 2019)	0/6	–
Dr. Ouyang Qingru	0/6	–
Mr. Zhang Jing	4/6	–
Mr. Leung Kwai Wah Alex	6/6	✓

Chairman and Chief Executive Officer

According to Code Provision A.2.1, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. During the year ended 31 December 2018, the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Junran. As the current nature of the Group's business is not complicated, the Board believes the current management structure is sufficient for monitoring and controlling the operation of the Group. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals with diversity of perspectives in accordance with Code Provision A.3. The Board currently comprises two Executive Directors and four Independent Non-Executive Directors and therefore has a strong independence element in its composition. The Company will review its structure from time to time and make relevant arrangements to observe the provisions of the Listing Rules whenever necessary.

Appointment, re-election and removal of the Directors

The Non-Executive Directors of the Company are not appointed for specific terms, thus deviates from Code Provision A.4.1. In addition, the Chairman of the Board and/or the managing Directors of the Company are not subject to retirement by rotation, which also deviates from Code Provision A.4.2. However, in view of the fact that Non-Executive Directors are subject to retirement by rotation in accordance with the Articles of Association of the Company, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code Provisions. Nevertheless, the Company will review its relevant Articles of Association and will propose any amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

Corporate Governance Report

Mr. Leung Kwai Wah Alex and Mr. Zhang Jing, being Independent Non-Executive Director, will retire and offer themselves for re-election at the 2019 annual general meeting of the Company (the "AGM"). The Nomination Committee considered that their long service will not affect their exercise of independent judgment and was satisfied that they have the required integrity and experience to continue fulfilling the role of an Independent Non-Executive Director. Taking into consideration the above, the Board is of the view that Mr. Leung Kwai Wah Alex and Mr. Zhang Jing remain independent notwithstanding the length of their service and should be re-elected at the forthcoming AGM. In accordance with the Code, the re-election of Mr. Leung Kwai Wah Alex and Mr. Zhang Jing will be subject to a separate resolution to be approved at the forthcoming AGM.

BOARD COMMITTEES

The Board has established various committees under the Board, namely Audit Committee, Remuneration Committee and Nomination Committee (collectively, "Board Committees"), to oversee different aspects of the Group's affairs and to assist in the execution of the Board's responsibilities.

AUDIT COMMITTEE

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Stock Exchange. The Audit Committee shall consist members of Non-Executive Directors of the Company. The Audit Committee currently comprises three Independent Non-Executive Directors, namely Mr. Leung Kwai Wah Alex (as Chairman), Mr. Chan Yiu Tung, Anthony and Mr. Zhang Jing. The quorum of meetings of the Audit Committee shall be any two members. The terms of reference of the Audit Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Audit Committee are aligned with the Code Provisions set out in the CG Code.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal of such auditor; reviewing the interim and annual reports and financial statements of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and internal control procedures.

Corporate Governance Report

The Audit Committee meets the external auditor regularly to discuss any area of concern during the audit. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with reporting and accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2018, the Audit Committee held 2 meetings. Each committee meeting has been supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

Names of members	Attendance/Number of meetings
Mr. Leung Kwai Wah Alex *(Chairman)*	2/2
Mr. Chan Yiu Tung, Anthony	2/2
Mr. Zhang Jing (appointed on 11 February 2019)	1/1
Mr. Zheng Qing (resigned on 11 February 2019)	0/1

During the year under review, the Audit Committee had performed the following work:

– reviewed the annual results for the year ended 31 December 2017 and the interim results for the six months ended 30 June 2018;

– discussed with the management of the Company over the completeness, fairness and adequacy of reporting and accounting standards and policies of the Group in the preparation of the 2018 interim and annual financial statements;

– reviewed and discussed with the external auditor over the financial reporting of the Company;

– recommended to the Board, for the approval by Shareholders, of the re-appointment of the auditor; and

– reviewed the internal control procedures of the Group.

The Board also delegated certain corporate governance functions to the Audit Committee, including the review and monitoring of (a) the Group's policies and practices on corporate governance and make recommendations to the Board; (b) the training and continuous professional development of Directors and senior management; (c) the Group's policies and practices on compliance with legal and regulatory requirements; (d) the code of conduct of the Group applicable to employees and Directors; and (e) the Group's compliance with the Code and disclosure in the Corporate Governance Report.

REMUNERATION COMMITTEE

The Company formulated written terms of reference for the Remuneration Committee in accordance with requirements of the Stock Exchange. The Remuneration Committee shall comprise at least three members with majority of Independent Non- Executive Directors, and an Independent Non-Executive Director should take up the role of Chairman of the Remuneration Committee. The Remuneration Committee currently comprises two Independent Non-Executive Directors, namely, Mr. Chan Yiu Tung, Anthony (as Chairman), and Mr. Leung Kwai Wah Alex and one Executive Director, Mr. Han Junran. The quorum of meetings of Remuneration Committee shall be any two members. The terms of reference of the Remuneration Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Remuneration Committee are aligned with the Code Provisions set out in the CG Code.

Corporate Governance Report

The functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing a remuneration policy, to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives, to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, and to make recommendations to the Board on the remuneration of Independent Non-Executive Directors.

During the year ended 31 December 2018, the Remuneration Committee held 1 meeting for reviewing the remuneration package of the Directors of the Company and approving the proposed remuneration of a senior management.

Names of members	Attendance/Number of meetings
Mr. Chan Yiu Tung, Anthony *(Chairman)*	1/1
Mr. Han Junran	1/1
Mr. Leung Kwai Wah Alex	1/1

The emolument payable to Directors and senior management will depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions. Details of the remuneration of the Directors and senior management are set out in note 14 and 15 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 1 April 2012. Prior to the establishment of the Nomination Committee, its role and functions were performed by the Board. The Chairman from time to time reviewed the composition of the Board with particular regard to the number and the independence of the Independent Non-Executive Directors. The Board also reviewed and determined the suitability and terms for re-appointment of Directors.

The Company formulated written terms of reference for the Nomination Committee in accordance with requirements of the Stock Exchange and amended the same on 23 August 2013. The Nomination Committee shall comprise at least three members with a majority of Independent Non-Executive Directors, and the Chairman of the Board or an Independent Non-Executive Director should take up the role of Chairman of the Nomination Committee. The Nomination Committee currently consists of one Executive Director, Mr. Han Junran (as Chairman), and three Independent Non-Executive Directors, namely, Mr. Leung Kwai Wah Alex and Mr. Chan Yiu Tung, Anthony and Mr. Zhang Jing. The quorum of meetings of the Nomination Committee shall be any two members. The terms of reference of the Nomination Committee are currently made available on the websites of the Stock Exchange and the Company.

Terms of reference adopted by the Nomination Committee are aligned with the Code Provisions set out in the CG Code.

The functions of the Nomination Committee are to review and monitor the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Group's strategy; to identify qualified individuals to become members of the Board; to assess the independence of Independent Non-Executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive.

Corporate Governance Report

The Company adopted a board diversity policy in August 2013 to enhance the quality of its performance in accordance with Code Provision A.5.6. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All board appointments will be based on meritocracy, and candidates will be selected based on a range of diversity perspectives, including gender, age, cultural background and ethnicity, educational background, professional experience, skills, knowledge and length of service.

The Nomination Committee will review the policy as appropriate to ensure its effectiveness and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

During the year ended 31 December 2018, the Nomination Committee reviewed the composition of the Board and the retirement and re-election of Directors. The Committee held 1 meeting during the year and the attendance records of the members at the meetings are set out below:

Names of members	Attendance/Number of meetings
Mr. Han Junran *(Chairman)*	1/1
Mr. Chan Yiu Tung, Anthony	0/1
Mr. Leung Kwai Wah Alex	1/1
Mr. Zheng Qing (resigned on 11 February 2019)	0/1
Mr. Zhang Jing (appointed on 11 February 2019)	1/1

SECURITIES TRANSACTIONS BY DIRECTOR

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors of the Company. All the members of the Board have confirmed, following the specific enquiry by the Company, that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2018. The Model Code also applies to other specified senior management of the Group.

AUDITORS' REMUNERATION

The statement of the external auditors of the Company on their reporting responsibilities for the Group's consolidated financial statements for the year ended 31 December 2018 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors, World Link CPA Limited and its affiliates in respect of audit and non-audit services for the year ended 31 December 2018 are as follows:

Nature of services	Amount (HK$'000)
Audit services	550
Non-audit services	
– Services in relation to environmental, social and governance reporting	60
– Provision of tax compliance services	30

Corporate Governance Report

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the consolidated financial position of the Group and of the consolidated financial performance and consolidated cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis.

The Directors acknowledge their responsibility to prepare the consolidated financial statements as set out on pages 41 to 125 of this annual report. The statement of the external auditors about their reporting responsibilities on the consolidated financial statements is set out in the paragraph headed "Independent Auditors' Report" on pages 34 to 40 of this annual report.

INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective internal control system to safeguard the Group' assets against unauthorised use or disposition, and to protect the interests of Shareholders of the Company.

During the year ended 31 December 2018, the Board conducted an annual review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management.

COMPANY SECRETARY

During the year ended 31 December 2018, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its Shareholders are achieved through various means including the convening of general meetings, the dispatch of annual reports, interim reports and circulars. The Chairman of the Board also proposes separate resolution for each substantive issue including re-election of Directors.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Articles 58 of the Articles of Association, an extraordinary general meeting ("EGM") may be convened by the Board on a written requisition of any one or more Shareholders of the Company holding not less than 10% of the paid up capital of the Company carrying the right of voting at general meeting of the Company. The EGM shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) 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) of the Company.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong for the attention of the Company Secretary.

Articles of Association

There was no change to the Articles of Association to the Company during the year ended 31 December 2018.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of interim and annual reports, the publishing and posting of notices, announcements and circulars on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.newcitygroup.com.hk) in a timely manner in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

Environmental, Social and Governance Report

1 BACKGROUND

The Group is committed to ethical corporate citizenship and to promoting sustainability in all of its activities. The Group demonstrate these commitments through transparent and responsible management of our environment and social values. These values respect and are informed by those of all of our stakeholders, including the communities with which we interact. The requirements listed below apply to the Group's operations, every subsidiary, each manager and employee, as well as any member performing work on behalf of the Group.

This ESG Report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the business operations in Hong Kong from 1 January 2018 to 31 December 2018, unless otherwise stated.

2 STAKEHOLDER ENGAGEMENT

The Group understands the importance of developing long-term relationships and constant dialogues with various stakeholders. The management seek to balance the views and interests of these various constituencies through constructive conversation.

i) Shareholders/Investors

In order to further strengthen communication with the shareholders, during each shareholders' meeting, the Group would communicate with its shareholders about the issues that should be communicated and ensure timely dissemination of relevant information to shareholders at all times. Shareholders are also encouraged to raise any question freely to the Company during each meeting.

ii) Customers

Customer feedback is invaluable as the Group operates in extremely competitive markets. There are a number of channels to solicit customer comments and recommendations such as through our website and email communications.

iii) Government

Along with different government laws, rules and regulations between Hong Kong and the PRC, the Group makes tremendous effort to ensure that it is complied with the relevant laws and regulations.

Environmental, Social and Governance Report

The table underneath showed aspects on the ESG Guide to be assessed and those ESG issues were determined to be material to the Group.

ESG Aspects as set forth in ESG Guide	Material ESG issues for the Group
(A) Environmental	
A1 Emissions	Emission from town gas, electricity or vehicle
A2 Use of Resources	Use of energy and paper
A3 Environment and Natural Resources	Air pollution
(B) Social	
B1 Employment	Labour practices
B2 Health and Safety	Workplace health and safety
B3 Development and Training	Employee development and training
B4 Labour Standards	Anti-child and forced labour
B5 Supply Chain Management	Supply chain management
B6 Product Responsibility	Product responsibility
B7 Anti-corruption	Anti-corruption, fraud prevention and anti-money laundering
B8 Community Investment	Community programs, employee volunteering and donation

A. Environmental

The Group recognises the importance of good environmental stewardship and a healthy environment. Therefore, the Group is dedicated to maintaining its energy consumption and emission at low level in every single step. The management strived to enhance operational efficiency and carried out measures to reduce the impact on the environment in order to protect the earth's resources.

The Group does not involve in production of related air, water, land pollutions and hazardous waste. Nonetheless, the Group has actively implemented eco-friendly measures to reduce carbon footprint in our business operations. For instance, board meetings/management meetings through telephone conference have significantly been adopted to minimize the cost of transportation and to reduce carbon emission.

Type of emission sources that the Group involved during the year was mainly electricity and paper. The Group's business did not involve in production-related air, water, and land pollutions which are regulated under national laws and regulations. There were no water consumption and packaging materials involved in the Group's business operation.

A1.1. Emissions Data from Gaseous Fuel Consumption

a) Since the Company did not have town fuel and town gas consumption during the year, therefore no emissions data from gaseous fuel consumption applied.

b) The Company owned serval motor vehicles during the year, the emissions data of NOx, SOx and PM in relation to motor vehicles are 38.5kg, 0.095kg and 3.5kg respectively.

Environmental, Social and Governance Report

A1.2. Greenhouse Gas Emission

KPI				
	2018	**2017**	**Unit**	**% increase/ (decrease)**
Scope 1 Direct Emission	17,518	7,950	Kg	120%
Scope 2 Indirect Emission	11,906	20,808	Kg	(43%)
Scope 3 Other indirect Emission	739	1,707	Kg	(57%)
Total	**30,163**	**30,465**	**Kg**	**(1%)**

During the year, there was 30,163kg (2017: 30,465kg) of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation.

A1.3. Non-hazardous Waste

The Group generated no hazardous waste in its operation. Non-hazardous waste from the Group's operation was mainly office paper but the management of the Group believed that the impact of non-hazardous waste arose from the waste paper was insignificant.

A2.1. Use of resource

The Group is committed to protecting the environment by enhancing its operational efficiency and energy efficiency to reduce energy, paper and waste by following initiatives:

i) Paper

- Using e-mail for internal communication to minimize the printing needs
- Using recycled paper and double-sided printing
- Using E-flyer to allow printing on demand basis

ii) Electricity

- Encouraging staff members to turn off lights and air-conditioners when not needed, especially after office hours.

iii) Computer

- Regular maintenance is undertaken to ensure efficient operation and to extend the life-cycle of the computers

iv) Stationery and Furniture

- Reusing stationery, furniture and equipment among offices instead of buying new one or disposing of such materials

v) Waste

- Encouraging recycling plastic and paper

The energy consumed is mainly from purchase of electricity. The total electricity consumed are 22,408kWh (2017: 26,340kWh) during the year.

A3. Environmental and Natural Resources

The Group believes that corporate development should not come at the expense of the environment. Therefore, the Group adopted environmental friendly practices in various aspects and company events. For example, the Group uses air conditioning arrangements in the office to reduce unnecessary energy wastage; use recycled paper and double-sided printing. The Company estimates that around 10% of the paper consumption was saved by adoption of double-sided printing in the principal place of business in the PRC and in Hong Kong.

The Group's air pollution is mainly produced by photocopiers, stale air drawn in from outside through poorly located fresh air inlets and bacteria that enter the office.

In order to improve the indoor air quality, the Group had implemented a range of air pollution emission measures as follows:

- Ensure air inlets are away from any source of pollutants and sufficient ventilation systems;
- Clean all air units regularly (e.g. air inlets, air outlets and filters); and
- Perform regular maintenance on carpet and furniture upholstery.

There was no non-compliance case noted in relation to environmental laws and regulations for the year.

B. Social

Being a responsible business and employer, the Group are committed to consistently looking for ways to meet the corporate social responsibilities. The Group focuses on its staff, environment and community as well as its business partners.

B1. Employment and Labour Practices

The Group offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retain talents. The Group possesses a Remuneration Committee, which regularly reviews its remuneration policy. The Remuneration Committee ensures packages offered by the Group are appealing to employees and in line with the market trend. The Group had a total number of 53 (2017:50) employees as of 31 December 2018, in which 60% (2017:64%) was Chinese full-time staff.

Environmental, Social and Governance Report

a) Employee' s Age and Gender Distribution

	2018		2017	
Age Group	**Male**	**Female**	**Male**	**Female**
0–15	0%	0%	0%	0%
16–18	0%	0%	0%	0%
19–30	4%	6%	4%	4%
31–45	19%	19%	16%	20%
46–60	26%	18%	28%	20%
= 61/>61	8%	0%	8%	0%
Total	**57%**	**43%**	**56%**	**44%**

Employees are entitled to discretionary cash bonus and retirement benefit scheme. Additional fringe benefits include office insurance, employee compensation insurance, directors' and officers' liability insurance. Various types of paid leave are also offered on top of statutory requirement including annual leave, sick leave, maternity leave, paternity leave, compensation leave, compassionate leave and wedding leave. Employees working overtime are entitled to overtime allowance and compensation by time off. The Group may also at its sole discretion, to grant share options to employees as a long-term incentive aiming to motivate employees pursuing Group's goal and objectives. Employees including directors can subscribe shares of the Company based on their performance and contribution to the Group.

The Group committed to ensure safe and healthy working environment for its employees and to inspire and strengthens workforce regardless of their age, gender and ethnical backgrounds. The annual turnover rate was 4% (2017: 2%) during the year.

b) Turnover Rate by Age Group and Gender

	2018		2017	
Age Group	**Male**	**Female**	**Male**	**Female**
0–15	0%	0%	0%	0%
16–18	0%	0%	0%	0%
19–30	0%	0%	0%	0%
31–45	2%	2%	2%	0%
46–60	0%	0%	0%	0%
= 61/>61	0%	0%	0%	0%
Total	**2%**	**2%**	**2%**	**0%**

	2018		2017	
By gender	**Male**	**Female**	**Male**	**Female**
Resigned staff	50%	50%	100%	0%

The Group will continue to provide a well-structured and caring environment to its employees to raise their sense of belonging and work efficiency at the Group.

B2. *Employee Health and Safety*

The Group strives to promote safety awareness, improve occupational environment and reduce occupational risks. The Group continuously promotes safety awareness among employees and committed to providing a healthy and safety working environment for its employees. The Group has dedicated adequate resources and effort to uphold and improve the Group's safety management measures in order to reduce the risks relating to labour safety, such as: ensuring a healthy and safety workplace and compliance with all relevant workplace health and safety laws, and maintaining various insurance policies for employees' compensation and liability.

During the year, the Group had no non-compliance case regarding violation of relevant laws and regulations on occupational health and safety.

a) Occupational Health and Safety Data

	2018		**2017**	
Health and Safety	**Male**	**Female**	**Male**	**Female**
Number of work-related fatalities	0%	0%	0%	0%
Lost days due to work injury	0%	0%	0%	0%

B3. *Development and Training*

The package offered by the Group in relation to development and training includes training covering topics of business operations, policy and procedures of the Group, statutory and regulatory obligations of being a director. Ongoing trainings, briefings and seminars would also be provided to staff after the induction to refresh their professional knowledge and skills.

In addition to above, the Group also encourages and supports employees' personal development through attending external trainings and special early leave would be granted for training purpose. Thus, various types of suitable seminars or training courses would be recommended to employees via email and they can choose registered either personally or through the Company.

The Group also provides communication channel to its employees. Notices, e-mails, team briefings serve as the major channels of communication among the management and frontline staff. Performance appraisals and annual surveys also provided platforms for the management and frontline staff to evaluate their performances and voice out their expectations to the Group's future development.

Environmental, Social and Governance Report

B4. Labour Standard

The Group believes in nurturing and developing top talents regardless of race, gender, age, religious belief, pregnancy, marital status, family status or disability. This measure ensures all employees and job applicants enjoy equal opportunities and fair treatment.

No child or forced labour was employed in the Group's operations during the year that was compliance with the Employment Ordinance, Chapter 57 of the Laws of Hong Kong in terms of employment management.

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, race, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable law. The Group also appreciates the importance of cultural diversity in the development of the Group, and employs employees in a wide range of ages, genders, and ethnicities

In particular, the Group adopted a Board Diversity function under which the Board composition includes members from with different skills, industry knowledge and experience, education, background and other qualities without discrimination.

During the year, the Group had no non-compliance case regarding violation of relevant child labour and forced labour laws.

B5. Supply Chain Management

The Group has policy in place on obtaining quotations from more than one supplier for procurement. The selection of suppliers or service providers would be based on meeting specifications and standards, product and service quality as well as service support.

B6. Product Responsibility

As stated in the Group's Employee Manual, insider information is prohibited to disclose to third party, and so consumer data and privacy matters relating to services are protected. The Group's business operation did not involve in any product or service related complaints.

During the year, the Group had no non-compliance case regarding violations of relevant laws and regulations on product responsibility and data privacy during the year.

B7. Anti-corruption

During the year, the management of the Group did not find any case of bribery or fraud. Through the controlled environment developed by all staff throughout the years, the Group believes that the risk of the occurrence of fraud behavior has been minimised. The Group will continue to monitor the related risks so as to maximise the values for the shareholders and other related parties.

There was no non-compliance case noted in relation to corruption related laws and regulations during the year.

B8. Community Investment

To maintain a high standard of corporate governance, the Group acknowledged the importance of enhancing its transparency to the community. The community is regularly informed of updated news and directions of the Group through circulars, announcements and annual reports posted on the Company's website. The Group is currently planning its direction on focus area of community engagement and types of resources to be contributed.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Han Junran, aged 62, obtained a professional law diploma from China Politics and Laws University in 1988. In 2001, Mr. Han also obtained a master's degree in enterprise management from Capital University of Economics and Business. Mr. Han has worked for Beijing Urban Construction Group Company Limited, the office of The Standing Committee of the National People's Congress of Beijing City and the office of the Beijing Municipal Government since 1983. Mr. Han joined the Group in December 1999 as the Group's general manager. Mr. Han is currently responsible for the Group's overall strategic development and management. Mr. Han was appointed as an Executive Director of the Company in December 1999 and the Chairman of the Company in December 2002.

Mr. Luo Min, aged 52, is an engineer and has extensive experience in property development, investments and management. Mr. Luo was appointed as a Non-Executive Director of the Company in May 2008. On 1 March 2012, Mr. Luo has been redesignated from a Non-Executive Director to an Executive Director.

Mr. Seto Man Fai (resigned on 10 May 2018), aged 51, graduated from the Chinese University of Hong Kong with a bachelor's degree in accounting. He is a member of the American Institute of Certified Public Accountants. He is also a member of the Institute of Chartered Accountants in England and Wales. Mr. Seto has extensive experiences in accounting, auditing and corporate finance. Mr. Seto was appointed as an Independent Non-Executive Director of the Company in October 2009. On 3 June 2016, Mr. Seto has been re-designated from a Independent Non-Executive Director to an Executive Director.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Tung, **Anthony**, aged 60, graduated from University of Toronto in 1982. Mr. Chan has over 20 years experience in the construction and property investment field and is currently the managing Director of Chan Shum Kee Sam Lee Construction Company Limited. Mr. Chan is currently the member of various organisations including Lions Club of Hong Kong West (President during the years 1996/97 and 2001/02), Hong Kong Registered Contractors Association (President), The Hong Kong Construction Association Ltd (Council Member), H.K. General Building Contractors Association Ltd (President for 2011- 2013), Kwong Yuet Tong Hong Kong (Council Member), Association of Hong Kong Nanjing Fellows Ltd (Director), The Chinese General Chamber of Commerce (Shamshuipo) (Council Member), Commercial & Industrial Committee of DAB (Council Member), Guangzhou Overseas Friendship-Liaison Association (Council Member), Yan Oi Tong (Directors for the years 2006 to 2009 and 2011 to 2014), Mr. Chan was appointed as an Independent Non-Executive Director of the Company in August 2002.

Directors' Profile

Mr. Zheng Qing (resigned on 11 February 2019), aged 53, has extensive experience in property development and management. Mr. Zheng is a Director of various companies in the fields of property development management and securities investment in PRC. Mr. Zheng was appointed as an Independent Non-Executive Director of the Company in September 2004.

Dr. Ouyang Qingru, aged 52, graduated from the Shanghai Second Medical University, is the engineer of the Anesthesiology division of a leading hospital. Working in the Hospital, Dr. Ouyang is familiar with clinical anesthesia and medical equipment application and has immersed experience in the hospital management. Dr. Ouyang was appointed as an Independent Non- Executive Director of the Company in December 2014.

Mr. Leung Kwai Wah Alex, aged 65, is currently a mentor of mentorship program of two universities in Hong Kong. Mr. Leung has 30 years of experiences in banking and financing field. Mr. Leung is a fellow member of Governance Institute of Australia, Hong Kong Institute of Directors, Institute of Chartered Secretaries and Administrators and Hong Kong Securities and Investment Institute. Mr. Leung is also a member of Hong Kong Treasury Markets Association. Mr. Leung graduated from Hong Kong Baptist College with a business administration major in 1979 and obtained a master's degree in business administration from Illinois State University in USA in 1981. Mr. Leung was appointed as an Independent Non-Executive Director of the Company in June 2016.

Mr. Zhang Jing, aged 62, is currently a director of private equity investment of Oriental Patron Financial Group Limited in Hong Kong. Mr. Zhang has over 22 years of experiences in corporate management. Mr. Zhang served as the general manager of China Security Limited（中國中安保有限公司）. Prior to this, Mr. Zhang was the deputy general manager of Sichuan Jinguang Group（四川金廣集團）. He also served as the director and deputy general manager of collective economic management department of China Yituo Group（中國一拖集團）and the chief financial officer of First Tractor Company Limited. Mr. Zhang obtained a bachelor's degree in industrial accounting from Henan Radio & Television University and a master's degree in management engineering from Jiangsu University. Mr. Zhang was appointed as an Independent Non- Executive Director of the Company in June 2016.

Report of the Directors

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in property development and investment in the PRC which has not been changed during the year. Details of the principal activities of its subsidiaries are set out in note 40 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 and the Group's financial position at that date are set out in the consolidated financial statements on pages 41 to 125.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2018.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 33 to the consolidated financial statements and the consolidated statement of changes in equity respectively.

BUSINESS REVIEW

The Group recorded a turnover of approximately HK$91,764,000 and recorded a profit after tax of approximately HK$13,711,000 for the year. Details of which, are set out in the paragraph headed "Management Discussion and Analysis" on pages 6 to 7.

SHARE CAPITAL

Details of the movement of share capital of the Company are set out in note 32 to the consolidated financial statement.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of special reserve and share premium less accumulated losses. Under the Companies Law of the Cayman Islands, the special reserve and share premium of the Company is available for paying distributions or dividends to Shareholders subject to the provisions of its 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.

As at 31 December 2018, the Company's reserves available for distribution are as follows: (2017: HK$300,171,000)

	HK$'000
Share premium account	492,472
Special reserve	306,450
Accumulated losses	(491,985)
	306,937

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Han Junran *(Chairman)*
Mr. Luo Min
Mr. Seto Man Fai (resigned on 10 May 2018)

Independent Non-Executive Directors

Mr. Chan Yiu Tung, Anthony
Mr. Zheng Qing (resigned on 11 February 2019)
Dr. Ouyang Qingru
Mr. Zhang Jing
Mr. Leung Kwai Wah Alex

In accordance with the Articles of Association, Mr. Luo Min, Mr. Chan Yin Tung Anthony and Dr. Ouyang Qingru shall retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received annual confirmations of independence from each of the Independent Non-Executive Directors of the Company and as at the date of this report still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Mr. Han Junrun, the Chairman and Executive Director, has entered into a service agreement with the Company commencing 16 December 2002 for a period of three years and continuing thereafter until his Directorship is terminated.

Mr. Luo Min, the Executive Director has entered into a service agreement with the Company for a period of one year commencing 1 March 2012 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice.

The term of Independent Non-Executive Directors is from the date they were last elected to the date of their retirement by rotation in accordance with the Company's Articles of Association.

Apart from the above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were 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 the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long position in the shares and underlying shares of the Company

Name of Director	Capacity/nature of interests	Number of shares involved	Approximate %* of shareholding
Han Junran	Interest of controlled corporation	1,886,662,752 (1)	54.22

Note:

(1) Junyi Investments Limited (a company wholly-owned by Mr. Han Junran) held 1,886,662,752 shares of the Company, representing 54.22% of the issued share capital. For the purposes of the SFO, both Junyi Investments Limited and Mr. Han Junran were deemed to be interested in 1,886,662,752 shares of the Company.

* The percentage represents the number of shares of the Company divided by the number of the Company's issued shares as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company and their respective associates had any interest or short position 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) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as the related party transactions and connected transaction disclosed in note 36 to the consolidated financial statements, there were no contract of significance to which the Company, its holding companies and any of its subsidiaries, was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 14 June 2002 which will remain in force for a period of 10 years from the date of adoption. The share option scheme expired on 14 June 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of it subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouse or children under the age of 18, had any rights to subscribe for the securities of the Company, or exercised any such rights.

MANAGEMENT CONTRACTS

Save as disclosed above, no contract of significance had been entered into between the Company or any of the subsidiaries and the controlling Shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or Chief Executive of the Company, as at 31 December 2018, other than the interests and short positions of the Directors or Chief Executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long position in the shares of the Company

Name of Director	Capacity/nature of interests	Number of shares involved	Approximate %* of shareholding
Mr. Han Junran	Interest of controlled corporation	1,886,662,752[(1)]	54.22
Junyi Investments Limited	Beneficial owner	1,886,662,752[(1)]	54.22
Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP)	Person having a security interest	1,886,662,752	54.22
Zhongtai International Asset Management Limited	Investment manager	1,886,662,752	54.22

Notes:

(1) Junyi Investments Limited, a company incorporated with limited liability in the British Virgin Islands, is wholly-owned by Mr. Han Junran who is an Executive Director of the Company.

(2) The security interest of the 1,886,662,752 shares of the Company is held by Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP), an investment fund managed by Zhongtai International Asset Management Limited.

(3) The information disclosed is based on the disclosure of interest forms submitted by these substantial shareholders of the Company respectively.

* The percentage represents the number of shares of the Company divided by the number of the Company's issued shares as at 31 December 2018.

Report of the Directors

Save as disclosed above, as at 31 December 2018, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CONTINUING CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

For the year ended 31 December 2018, the Group has the following continuing connected transactions which are exempt from the independent Shareholders' approval requirement under Rule 14A.34 of the Listing Rules:

On 31 May 2016, new tenancy agreements (the "New Tenancy Agreements") were respectively entered into (i) between New Rank Services Limited (a wholly-owned subsidiary of the Company) as tenant and Winrich Investments Limited as landlord for leasing of the office premises; (ii) between New Rank Services Limited as tenant and Goldrich Investments Limited as landlord for leasing of the office premises; and (iii) between New Rank Services Limited as tenant and Jiacheng Jiaxin International Property Management (Hong Kong) Limited as landlord for leasing of the staff quarter and car parking space. The New Tenancy Agreements are for a term of two years commencing from 1 June 2016. All of Winrich Investments Limited, Goldrich Investments Limited and Jiacheng Jiaxin International Property Management (Hong Kong) Limited are companies indirectly wholly-owned by an associate of a connected person of the Company, and therefore the transactions contemplated under the New Tenancy Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As announced by the Company on 30 May 2014, the aggregate Annual Caps for the New Tenancy Agreements, the consideration for the Tenancy Agreements on an annual basis falls within the threshold prescribed in Rule 14A.34 of the Listing Rules. The entering into of the New Tenancy Agreements is therefore subject to the reporting and announcement requirements and annual review requirements under Chapter 14A of the Listing Rules and is exempt from the requirement to obtain independent Shareholders' approval.

The Independent Non-Executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

1. in the normal and usual course of the Group's business;

2. on normal commercial terms; and

3. have been carried out in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The auditors of the Company have reviewed the above continuing connected transactions and provided a letter to the Company confirming that the above continuing connected transactions:

1. have received the approval of the Board;

2. have been entered into in accordance with the relevant agreements governing the transactions; and

3. have not exceeded the annual caps as disclosed in the Company's announcements dated 30 May 2014.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

MAJOR SUPPLIERS

There is no property development project during the year and therefore no purchase payment was paid or payable to suppliers by the Group during the year ended 31 December 2018.

MAJOR CUSTOMER

The Group has no major customers during the year under review.

ENVIRONMENTAL PERFORMANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

Details of which, are set out in the paragraph headed "Management Discussion and Analysis" on page 6 to 7.

AUDITORS

The consolidated financial statements for the years ended 31 December 2014, 2015 and 2016 have been audited by Ascenda Cachet CPA Limited.

The consolidated financial statements for the year ended 31 December 2017 and 2018 have been audited by World Link CPA Limited, who retire and a resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, World Link CPA Limited.

On behalf of the Board

Han Junran
Chairman

28 March 2019, Hong Kong

Independent Auditor's Report

World Link CPA Limited
華普天健(香港)會計師事務所有限公司

To the shareholders of New City Development Group Limited
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of New City Development Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 41 to 125, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value of the investment properties – Guangzhou Properties	
Reference is made to notes 4 and 5 to the consolidated financial statements for the disclosures of the related accounting policies, judgements and estimates and note 19(a) to the consolidated financial statements for further information. Included in the carrying amount of the Group's investment properties of approximately HK$810,436,000 were properties located in Guangzhou (the "Guangzhou Properties") of approximately HK$740,090,000 which were stated at fair value as at 31 December 2018. For the purpose of assessing the fair value of the Guangzhou Properties, the management determined the fair value of the Guangzhou Properties by income approach based on external evidence such as current market rents for similar properties in the same location and condition, and a suitable discount rate in order to calculate the present value. The management also engaged an independent professional valuer to assist in assessing the fair value of the Guangzhou Properties.	Our procedures in relation to management's assessment of the fair value of the Guangzhou Properties included: – Assessing the design and implementation of key controls in respect of the valuation of the Guangzhou Properties; – Engage a valuation specialist to assist us to review the appropriateness of the valuation approach and methodology, the accuracy of the calculations in the valuation model and the market data used on a sample basis; – Assessing the assumptions used in the valuation of the Guangzhou Properties and recalculating the fair value of Guangzhou Properties; – Directly communicating with and challenging the independent professional valuer on the methodology and assumptions used in the valuation of the Guangzhou Properties and assessing on their competence, independence and integrity by considering the professional qualifications and market standing as valuer of investment properties; and – Reviewing the appropriateness of the disclosure in the consolidated financial statements.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of the investment properties – Luoyang Properties	
Reference is made to notes 4 and 5 to the consolidated financial statements for the disclosures of the related accounting policies, judgements and estimates and note 19(b) to the consolidated financial statements for further information. Included in the carrying amount of the Group's investment properties of approximately HK$810,436,000 were properties under development in Luoyang (the "Luoyang Properties") of approximately HK$70,346,000 which were stated at cost less accumulated impairment losses, if any, as at 31 December 2018. As detailed in note 19(b) to the consolidated financial statements, the construction of the Luoyang Properties has not been complied (the "Non-Compliance") with a condition of the land use right agreement to commence and complete the construction on or before 1 September 2013 and 1 September 2016, respectively. The directors have sought a legal advice on the Non-Compliance from a lawyer and are of the opinion that the risk for the penalty or the loss on the forfeiture of the land use right is remote. For the purpose of assessing the recoverable amount of the Luoyang Properties, the management determined the recoverable amount of the Luoyang Properties by direct comparison method based on market observable transactions of similar properties without any significant adjustments. The management also engaged an independent professional valuer to assist in assessing the valuation and was of the opinion that the recoverable amount of the Luoyang Properties was higher than its carrying amount as at 31 December 2018.	Our procedures in relation to management's assessment of the recoverable amount of the Luoyang Properties included: – Reviewing the correspondences between the government and the Group for the Non-Compliance; – Discussing with the management on matters leading to the Non-Compliance and recent status of their future development plan; – Reviewing the legal advice regarding the legal and financial consequence arising from the Non-Compliance of the Luoyang Properties; – Engage a valuation specialist to assist us to review the appropriateness of the valuation approach and methodology, the accuracy of the calculations in the valuation model and the market data used on a sample basis; – Assessing the assumptions used in the valuation of the Luoyang Properties and recalculating their recoverable amount; – Directly communicating with and challenging the independent professional valuer on the methodology and assumptions used in the valuation of the Luoyang Properties and assessing of their competence, independence and integrity by considering the professional qualifications and market standing as valuer of investment properties; and – Reviewing the appropriateness of the disclosure in the consolidated financial statements.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter

Recoverability and impairment assessment for the deposits and other receivables

Reference is made to notes 4 and 5 to the consolidated financial statements for the disclosures of the related accounting policies, judgements and estimates and notes 23(c), 23(d) and 23(f) to the consolidated financial statements for further information.

Included in the carrying amount of the Group's prepayments, deposits and other receivables of approximately HK$160,333,000 as at 31 December 2018 were (i) approximately HK$49,520,000 being deposit held by an independent contractor; (ii) approximately HK$39,851,000 being deposit held by 珠海市潤珠商貿有限公司; and (iii) approximately HK$50,307,000 being amount due from 北京中證房地產開發有限公司.

The recoverability as well as impairment of deposits and other receivables is estimated by the management through the application of judgement and estimation. The Group's policy for recognition of impairment loss for expected credit losses ("ECL") on deposits and other receivables is based on the credit risk of deposits and other receivables, including counterparties' financial position, current and forecast general economic condition and forward-looking information. A considerable amount of judgement is required in assessing the recoverability of these deposits and other receivables.

Our procedures in relation to management's assessment of the recoverability of the deposits and other receivables included:

– Obtaining an understanding of how management estimated the recoverability of the deposits and other receivables and evaluating the design, implementation and operating effectiveness of key internal controls over credit control;

– Assessing the reasonableness of the Group's ECL models by examining the model input used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current and forecast general economic conditions and forward-looking information including the economic variables and assumptions used in each of the economic scenarios with reference to our knowledge of the businesses obtained elsewhere during our audit and their probability weightings and assessing whether there was an indication of management bias when recognising allowance for deposits and other receivables;

– Recalculating the amount of the impairment on deposits and other receivables and assessing the appropriateness and adequacy of the impairment as at 31 December 2018; and

– Inspecting the settlements after the financial year end relating to the deposits and other receivables as at 31 December 2018.

Independent Auditor’s Report

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group’s financial reporting process.

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

Independent Auditor's Report

We communicate with the Audit Committee, 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.

World Link CPA Limited
Certified Public Accountants

Lo Ka Ki
Audit Engagement Director
Practising Certificate Number – P06633

5/F.,
Far East Consortium Building,
121 Des Voeux Road Central,
Hong Kong

Hong Kong, 28 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	9	**91,764**	39,076
Cost of goods sold and services provided		**(51,781)**	(3,124)
Gross profit		**39,983**	35,952
Other income	10	**77,375**	31,697
Administrative and other operating expenses		**(67,436)**	(27,594)
Profit from operations		**49,922**	40,055
Finance costs	11	**(21,917)**	(13,952)
Profit before tax		**28,005**	26,103
Income tax expense	12	**(14,294)**	(3,093)
Profit for the year	13	**13,711**	23,010
Profit for the year attributable to:			
Owners of the Company		**13,753**	23,274
Non-controlling interests		**(42)**	(264)
		13,711	23,010
Earnings per share attributable to owners of the Company (cents)			
Basic	16	**0.41**	0.70
Diluted	16	**0.41**	0.70

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**13,711**	23,010
Other comprehensive income for the year, net of tax:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(25,962)**	37,034
Total comprehensive income for the year	**(12,251)**	60,044
Total comprehensive income for the year attributable to:		
Owners of the Company	**(11,616)**	60,041
Non-controlling interests	**(635)**	3
	(12,251)	60,044

Consolidated Statement of Financial Position

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	18	**62,296**	3,968
Investment properties	19	**810,436**	793,411
Investments in associates	20	**11,500**	–
Financial assets at fair value through other comprehensive income ("FVTOCI")	21	**–**	–
Available-for-sale financial assets	21	**–**	–
Prepayments, deposits and other receivables	23	**139,958**	206,027
		1,024,190	1,003,406
Current assets			
Financial assets at fair value through profit or loss ("FVTPL")	22	**34,594**	57,906
Inventories	24	**11,460**	–
Prepayments, deposits and other receivables	23	**20,375**	5,549
Due from associates	25	**97,257**	11
Due from a related company	25	**13**	11
Due from non-controlling shareholders	25	**939**	1,580
Cash and bank balances	26	**72,603**	35,684
		237,241	100,741
Current liabilities			
Accruals and other payables	27	**22,695**	21,307
Deposits received		**11,500**	9,156
Borrowings	28	**2,847**	3,597
Finance lease payables	29	**557**	–
Due to non-controlling shareholders	25	**6,165**	5,820
Due to related parties	25	**581**	612
Due to a director	25	**1,680**	1,560
Current tax liabilities		**–**	3,064
		46,025	45,116
Net current assets		**191,216**	55,625
Total assets less current liabilities		**1,215,406**	1,059,031

Consolidated Statement of Financial Position

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Borrowings	28	**315,961**	236,183
Finance lease payables	29	**3,129**	–
Convertible notes	30	**41,769**	–
Deferred tax liabilities	31	**165,341**	159,111
		526,200	395,294
Net assets		**689,206**	663,737
Equity			
Equity attributable to owners of the Company			
Share capital	32	**13,919**	13,268
Reserves	33	**675,484**	650,031
		689,403	663,299
Non-controlling interests		**(197)**	438
Total equity		**689,206**	663,737

Approved and authorised for issue by the Board of Directors on 28 March 2019.

Mr. Han Junran
Director

Mr. Luo Min
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital	Share premium (note 33 (a))	Contributed surplus (note 33 (b))	Foreign currency translation reserve (note 33 (c))	Convertible notes reserve (note 33 (d))	Statutory reserve (note 33 (e))	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	13,268	457,758	4,755	(49,408)	–	16,752	160,133	603,258	435	603,693
Total comprehensive income for the year	–	–	–	36,767	–	–	23,274	60,041	3	60,044
Appropriations	–	–	–	–	–	1,852	(1,852)	–	–	–
Changes in equity for the year	–	–	–	36,767	–	1,852	21,422	60,041	3	60,044
At 31 December 2017 and 1 January 2018	13,268	457,758	4,755	(12,641)	–	18,604	181,555	663,299	438	663,737
Issue of convertible notes (note 30)	**–**	**–**	**–**	**–**	**4,049**	**–**	**–**	**4,049**	**–**	**4,049**
Conversion of convertible notes (note 30)	**651**	**34,714**	**–**	**–**	**(1,694)**	**–**	**–**	**33,671**	**–**	**33,671**
Total comprehensive income for the year	**–**	**–**	**–**	**(25,369)**	**–**	**–**	**13,753**	**(11,616)**	**(635)**	**(12,251)**
Changes in equity for the year	**651**	**34,714**	**–**	**(25,369)**	**2,355**	**–**	**13,753**	**26,104**	**(635)**	**25,469**
At 31 December 2018	**13,919**	**492,472**	**4,755**	**(38,010)**	**2,355**	**18,604**	**195,308**	**689,403**	**(197)**	**689,206**

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Profit before tax		**28,005**	26,103
Adjustments for:			
Allowance for doubtful debts		**5,700**	–
Finance costs		**21,917**	13,952
Dividend income		**(4,694)**	–
Interest income		**(6,548)**	(8,397)
Depreciation		**5,518**	522
Fair value (gain)/loss on investment properties		**(56,930)**	1,199
Fair value loss/(gain) on financial assets at FVTPL		**21,662**	(17,112)
Gain on bargain purchase on acquisition of an associate		**(9,189)**	–
Unrealised foreign exchange loss/(gain) on financial assets at FVTPL		**1,675**	(3,166)
Operating profit before working capital changes		**7,116**	13,101
Increase in inventories	*39(a)*	**(8,560)**	–
Increase in prepayments, deposits and other receivables	*39(a)*	**(10,037)**	(36,609)
Decrease/(increase) in amounts due from non-controlling shareholders		**562**	(1,580)
Increase in amount due from a related company		**(2)**	(3)
Increase in accruals and other payables	*39(a)*	**3,098**	7,526
Increase in deposits received		**2,805**	809
Increase in amounts due to non-controlling shareholders		**638**	738
Decrease in amounts due to related parties		**(31)**	(41)
Increase in amount due to a director		**120**	120
Cash used in operations		**(4,291)**	(15,939)
Overseas taxes paid		**(2,971)**	(1,555)
Net cash used in operating activities		**(7,262)**	(17,494)
Cash flow from investing activities			
Cash advanced to associates		**(89,259)**	(2)
Purchases of property, plant and equipment	*39(a)*	**(18,201)**	(2,337)
Dividend received		**4,694**	–
Interest received		**41**	60
Acquisition of an associate	*20(b)*	**(1,336)**	–
Net cash used in investing activities		**(104,061)**	(2,279)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flow from financing activities			
Repayment of finance lease payables		**(174)**	(101)
Proceeds from issue of convertible notes		**78,200**	–
Borrowings raised		**331,436**	237,120
Repayment of borrowings		**(236,740)**	(208,944)
Interest paid		**(20,628)**	(13,952)
Net cash from financing activities		**152,094**	14,123
Net increase/(decrease) in cash and cash equivalents		**40,771**	(5,650)
Effect of foreign exchange rate changes		**(3,852)**	1,289
Cash and cash equivalents at beginning of year		**35,684**	40,045
Cash and cash equivalents at end of year		**72,603**	35,684
Analysis of cash and cash equivalents			
Cash and bank balances	*26*	**72,603**	35,684

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. CORPORATE INFORMATION

New City Development Group Limited (the "Company") was incorporated in the Cayman Islands with limited liabilities on 10 August 1998. The address of its registered office is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands. The principal place of business in Hong Kong is located at Flat D, 17/F., MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 24 May 2000.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 40 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2018, Junyi Investments Limited, a company incorporated in the British Virgin Islands (the "BVI") is the immediate and ultimate parent of the Company and Mr. Han Junran ("Mr. Han"), a director of the Company, is the ultimate controlling party of the Company.

2. BASIS OF PREPARATION

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

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

3. ADOPTION OF NEW AND REVISED HKFRSs

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) HKFRS 9 Financial Instruments; and

(ii) HKFRS 15 Revenue from Contracts with Customers

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

HKFRS 9 Financial instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

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

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at FVTOCI or FVTPL, and

– those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

(a) Application of new and revised HKFRSs (Continued)

HKFRS 9 Financial instruments (Continued)

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

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

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised as other income or administrative and other operating expenses in the consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(iii) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

3. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

(a) Application of new and revised HKFRSs (Continued)

HKFRS 9 Financial instruments (Continued)

Set out below is the impact of the adoption of HKFRS 9 on the Group.

With respect to the financial assets classified as available-for-sale under HKAS 39, the Group elected to designate these investments as FVTOCI on 1 January 2018. The carrying amounts of these financial assets as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

With respect to the financial assets classified as loans and receivables (which were measured at amortised cost) and financial assets measured at FVTPL under HKAS 39, the Group has assessed the business model under which the financial assets are managed and its contractual cash flow characteristics, and these financial assets will continue with their respective classification and measurements upon the adoption of HKFRS 9, and the carrying amounts of these financial assets as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

The Group did not designate or de-recognise any financial assets or financial liabilities at FVTPL at 1 January 2018 and the initial adoption of HKFRS 9 did not have impact on the Group's opening retained profits.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognsied. It replaced HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. The initial adoption of HKFRS 15 did not have impact on the Group's opening retained profits and how the Group recognises its revenue.

3. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

		Effective for accounting periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK(IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKAS 28	Amendments to HKAS 28 Long-term Interest in Associates and Joint Ventures	1 January 2019
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially adopted in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or finance leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

3. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 16 Leases (Continued)

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 37(b) to the consolidated financial statements, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately HK$2,816,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

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

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain investment properties and financial instruments that are measured at fair value).

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

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

(a) Consolidation

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

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

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

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

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

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidation (Continued)

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

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

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

(b) Associates

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Associates (Continued)

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

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

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign currency translation (Continued)

(iii) Translation on consolidation

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

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

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

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

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

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

(d) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (Continued)

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

Leasehold building	Over the term of the lease
Leasehold improvements	Over the term of the lease
Furniture and fixtures	18–35%
Motor vehicles	15–25%

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

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

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

(e) Investment properties

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

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

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

Construction in progress represents a building under construction for future use as an investment property, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is stated at fair value at the end of the reporting period when completed and ready for use.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leases

The Group as lessee

(i) Operating leases

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

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the consolidated statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

The Group as lessor

(i) Operating leases

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

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. Cost comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

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

(i) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets (Continued)

Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets (Continued)

Policy prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVTPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost.

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(j) 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.

(k) 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 that are 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 cash flow statement. Cash and cash equivalents are assessed for ECL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(m) Borrowings

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

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

(n) Convertible notes

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

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

(o) Other payables

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

(p) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, 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.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental income is recognsied on a straight-line basis over the lease term.

Dividend income is recognsied when the shareholders' rights to receive payment are established.

Policy prior to 1 January 2018

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

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

(r) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits (Continued)

(iii) Termination benefits

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

(s) Borrowing costs

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

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

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

(t) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Taxation (Continued)

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Related parties

For the purposes of these consolidated financial statements, a related party is a person or entity that is related to the Group.

(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 Company or a parent of the Company.

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

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

(iii) Both entities are joint ventures of the same third party.

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

(v) The entity is a post-employment benefit plan for the benefit of 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 Company or to a parent of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Impairment of non-financial assets

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

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

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(w) Impairment of financial assets

The Group recognises a loss allowance for ECL on trade receivables and lease receivable. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and lease receivables. The ECL 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, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Impairment of financial assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

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

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

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

– significant increases in credit risk on other financial instruments of the same debtor;

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default,

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Impairment of financial assets (Continued)

Credit-impaired financial assets

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

– significant financial difficulty of the issuer or the counterparty;

– a breach of contract, such as a default or past due event;

– the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;

– it is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; or

– The disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

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

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Impairment of financial assets (Continued)

Measurement and recognition of ECL (Continued)

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

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Policy prior to 1 January 2018

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

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Impairment of financial assets (Continued)

Policy prior to 1 January 2018 (Continued)

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

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

For available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss. In respect of available-for-sale equity securities, an increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in revaluation reserve; impairment losses are not reversed through profit or loss.

(x) Provisions and contingent liabilities

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

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

(y) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

(a) Classification between investment properties and owner-occupied properties

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

(b) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted as the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. As the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

(c) Financial implication of regulations of idle land

Under the People's Republic of China ("PRC") laws and regulations, if a property developer fails to commence the development of land within the timeframe designated in the land grant contract, the PRC government may regard the land as idle land and issue a warning or impose a penalty on the developer or reclaim the land. The directors of the Company have sought a legal advice from a PRC lawyer and are of the opinion that the delay of the construction of the properties in Luoyang was due to the changing of land policy by the Luoyang government in the previous years and the risk for the penalty or the loss on the forfeiture is minimal. Accordingly, no provision in respect of the penalty, if any, has been made in the consolidated financial statements.

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5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (Continued)

(d) Significant increase in credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Key sources of estimation uncertainty

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

(a) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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.

During the year, approximately HK$14,294,000 (2017: HK$3,093,000) of income tax was charged to profit or loss.

(b) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of property, plant and equipment as at 31 December 2018 was approximately HK$62,296,000 (2017: HK$3,968,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(c) Fair value of investment properties

The Group appointed an independent professional valuer to assess the fair value of the investment properties. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

The carrying amount of investment properties stated at fair value as at 31 December 2018 was approximately HK$740,090,000 (2017: HK$719,340,000).

(d) Fair value of unlisted investments

The unlisted investments of the Group designated as financial assets at FVTPL have been valued using the market observable data of comparable listed companies adjusted for lack of marketability discount or based on the expected future cash flows discounted at current rates applicable for items with similar terms and risk characteristics. These valuations require the management to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty.

The aggregated fair value of the unlisted investments at 31 December 2018 was approximately HK$25,000 (2017: Nil).

(e) Impairment of deposits and other receivables

Prior to the adoption of HKFRS 9 on 1 January 2018, the management of the Group assesses at the end of each reporting period whether there is any objective evidence that deposits and other receivables are impaired. The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of deposits and other receivables, including the current creditworthiness and the past collection history of each counterparties. If the financial conditions of the counterparties of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Since the adoption of HKFRS 9 on 1 January 2018, the management of the Group estimates the amount of impairment loss for ECL on deposits and other receivables based on the credit risk of deposits and other receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of deposits and other receivables is approximately HK$157,016,000 (2017: HK$161,836,000) (net of allowance for doubtful debts of approximately HK$5,700,000 (2017: Nil)).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(f) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment of non-financial assets was made for the year ended 31 December 2018 (2017: Nil).

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, interest rate risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HK$, Renminbi ("RMB") or New Taiwan Dollar ("NT$"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate of RMB and NT$, with all other variables held constant, of the Group's profit before tax due to changes in the value of monetary assets and liabilities.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK$'000
At 31 December 2018		
If the HK$ weakens against RMB	**5**	**2,515**
If the HK$ strengthens against RMB	**(5)**	**(2,515)**
If the HK$ weakens against NT$	**5**	**1,728**
If the HK$ strengthens against NT$	**(5)**	**(1,728)**
At 31 December 2017		
If the HK$ weakens against RMB	5	2,389
If the HK$ strengthens against RMB	(5)	(2,389)
If the HK$ weakens against NT$	5	2,895
If the HK$ strengthens against NT$	(5)	(2,895)

(b) Price risk

Price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. At the end of the reporting period, the Group is exposed to price risk. Mainly through its equity investment listed on The Taiwan Stock Exchange designated at FVTPL. The sensitivity analysis below have been determined based on the exposure to price risk at the end of reporting period.

If equity price had been 10% higher, profit after tax for the year ended 31 December 2018 would increase by approximately HK$3,457,000 (2017: HK$5,791,000). If equity price had been 10% lower, profit after tax for the year ended 31 December 2018 would decrease by approximately HK$3,457,000 (2017: HK$5,791,000).

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk

The Group's credit risk is primarily attributable to deposits and other receivables, amounts due from associates, a related company and non-controlling shareholders and cash and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Where applicable, allowance for impairment would be made to reduce the exposure to the credit risk in relation to these receivables.

The Group has no significant concentrations of credit risk.

For deposits and other receivables, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the deposits and other receivables has not increased significantly since initial recognition, the Group measures the loss allowance for the deposits and other receivables at an amount equal to 12-month ECL.

The following table provides information about the Group's exposure to credit risk and ECL for deposits and other receivables which has significant increase in the credit risk as at 31 December 2018:

	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	HK$'000	HK$'000
Deposits and other receivables	**0.4%–6.3%**	**145,658**	**5,700**

These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Except for the above, the Group has assessed that the ECL of deposits and other receivables is insignificant as at 31 December 2018 under 12-month ECL model and therefore no loss allowance provision was recognised.

Amounts due from associates, a related company and non-controlling shareholders are closely monitored by the directors.

The credit risk on cash and bank balances and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk

The Group's finance lease payables and convertible notes bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's exposure to interest-rate risk arises from its bank borrowings. The bank borrowings bear interests at variable rates that vary with the then prevailing market condition.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's profit before tax.

	Increase/ (decrease) in interest rate	**(Increase)/ decrease in profit before tax**
	%	HK$'000
At 31 December 2018		
If the interest rate increase	**1%**	**(3,188)**
If the interest rate decrease	**(1%)**	**3,188**
At 31 December 2017		
If the interest rate increase	1%	(2,398)
If the interest rate decrease	(1%)	2,398

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

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

The maturity analysis of the Group's financial liabilities based on contractual undiscounted cash flow is as follows:

31 December 2018	**On demand** HK$'000	**Less than 1 year** HK$'000	**1 to 5 years** HK$'000	**Over 5 years** HK$'000	**Total** HK$'000
Accruals and other payables	**9,965**	**12,730**	**–**	**–**	**22,695**
Borrowings	**–**	**28,593**	**162,673**	**321,671**	**512,937**
Finance lease payables	**–**	**717**	**2,669**	**839**	**4,225**
Convertible notes	**–**	**–**	**44,928**	**–**	**44,928**
Due to non-controlling shareholders	**6,165**	**–**	**–**	**–**	**6,165**
Due to related parties	**581**	**–**	**–**	**–**	**581**
Due to a director	**1,680**	**–**	**–**	**–**	**1,680**

31 December 2017	On demand HK$'000	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Accruals and other payables	10,493	10,814	–	–	21,307
Borrowings	–	19,737	116,401	206,967	343,105
Due to non-controlling shareholders	5,820	–	–	–	5,820
Due to related parties	612	–	–	–	612
Due to a director	1,560	–	–	–	1,560

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Categories of financial instruments at 31 December

	2018 HK$'000	2017 HK$'000
Financial assets:		
Financial assets at FVTPL	**34,594**	57,906
Financial assets at FVTOCI	**–**	–
Available-for-sale financial assets	**–**	–
Financial assets at amortised cost	**327,828**	–
Loans and receivables (including cash and cash equivalents)	**–**	199,122
Financial liabilities:		
Financial liabilities at amortised cost	**391,698**	269,079

(g) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(h) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes accruals and other payables, deposits received, borrowings, finance lease payables, amounts due to non-controlling shareholders, related parties and a director and convertible notes less cash and bank balances. Capital includes equity attributable to owners of the Company. The gearing ratios as at the end of reporting periods were as follows:

	2018	2017
	HK$'000	HK$'000
Accruals and other payables	**22,695**	21,307
Deposits received	**11,500**	9,156
Borrowings	**318,808**	239,780
Finance lease payables	**3,686**	–
Due to non-controlling shareholders	**6,165**	5,820
Due to related parties	**581**	612
Due to a director	**1,680**	1,560
Convertible notes	**41,769**	–
Less: Cash and bank balances	**(72,603)**	(35,684)
Net debt	**334,281**	242,551
Total capital:		
Equity attributable to owners of the Company	**689,403**	663,299
Capital and net debt	**1,023,684**	905,850
Gearing ratio	**33%**	27%

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7. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy:

	Fair value measurements using:			**Total**
Description	**Level 1**	**Level 2**	**Level 3**	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurements:				
Investment properties	**–**	**–**	**740,090**	**740,090**
Financial assets at FVTPL:				
Listed securities	**34,569**	**–**	**–**	**34,569**
Call option	**–**	**–**	**25**	**25**
Total	**34,569**	**–**	**740,115**	**774,684**

	Fair value measurements using:			Total
Description	Level 1	Level 2	Level 3	2017
	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurements:				
Investment properties	–	–	719,340	719,340
Financial assets at FVTPL:				
Listed securities	57,906	–	–	57,906
Total	57,906	–	719,340	777,246

During the year, there were no transfers in the fair value hierarchy between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil).

7. FAIR VALUE MEASUREMENT (CONTINUED)

(b) Reconciliation of assets measured at fair value based on level 3:

	Investment properties HK$'000	**Call option** HK$'000	**Total** HK$'000
1 January 2018	**719,340**	**–**	**719,340**
Total gains or losses recognised:			
Fair value gains on investment properties	**56,930**	**–**	**56,930**
Acquisition of an associate	**–**	**25**	**25**
Exchange differences	**(36,180)**	**–**	**(36,180)**
31 December 2018	**740,090**	**25**	**740,115**

	Investment properties HK$'000	Call option HK$'000	Total HK$'000
1 January 2017	667,892	–	667,892
Total gains or losses recognised:			
Fair value losses on investment properties	(1,199)	–	(1,199)
Exchange differences	52,647	–	52,647
31 December 2017	719,340	–	719,340

The total gains or losses recognised in profit or loss are presented fair value gain/(loss) on investment properties in the consolidated statement of profit or loss and other comprehensive income.

7. FAIR VALUE MEASUREMENT (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

The valuation techniques and the Key unobservable input to the Level 3 fair value measurements are set out below:

Description	**Fair value** HK$'000	**Valuation technique**	**Unobservable inputs**	**Relationship of unobservable inputs to fair value**
Investment properties	740,090 (2017: 719,340)	Income approach	Estimated rental income (per square metre and per month) with a range from RMB55 to RMB80 (2017: from RMB50 to RMB75)	The higher the rental income, the higher the fair value
			Discount rate at 4.5% (2017: 4.5%)	The higher the discount rate, the lower the fair value
Call option	25 (2017: Nil)	Binomial option pricing model	Risk-free rate at 2.69% (2017: Nil)	The higher the risk-free rate, the lower the fair value
			Volatility at 60% (2017: Nil)	The higher the volatility, the higher the fair value

During the two years, there were no changes in the valuation techniques used.

8. OPERATING SEGMENT INFORMATION

For the year ended 31 December 2018, the Group is engaged in property development and investment in PRC and trading of buses. Accordingly, there are two reportable segments to be presented.

For the year ended 31 December 2017, the Group is engaged in a single operating segment, being property development and investment in PRC. As a result, no segment information to be presented in 2017.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those accounting policies of the Group described in note 4 to the consolidated financial statements. Segment profits or losses do not include unallocated other income, administrative and other operating expenses, finance costs and income tax expense. Segment assets do not include unallocated property, plant and equipment, investments in associates, financial assets at FVTOCI, financial assets at FVTPL, prepayments, deposits and other receivables, amounts due from associates, a related company and non-controlling shareholders and cash and bank balances. Segment liabilities do not include unallocated accruals and other payables, borrowings, finance lease payables, amounts due to non-controlling shareholders, related parties and a director, convertible notes, current tax liabilities and deferred tax liabilities.

Information about reportable segment profit or loss, assets and liabilities:

	Property development and investment HK$'000	Sales of buses HK$'000	Total HK$'000
Year ended 31 December 2018			
Revenue from external customers	**41,925**	**49,839**	**91,764**
Segment profit	**38,989**	**994**	**39,983**
As at 31 December 2018			
Segment assets	**810,436**	**11,460**	**821,896**
Segment liabilities	**11,500**	**–**	**11,500**

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8. OPERATING SEGMENT INFORMATION (CONTINUED)

Reconciliations of segment profit or loss:

	2018 HK$'000
Profit or loss	
Total profit of reportable segments	39,983
Other income	77,375
Administrative and other operating expenses	(67,436)
Finance costs	(21,917)
Consolidated profit before tax	28,005

Reconciliations of segment assets or liabilities:

	2018 HK$'000
Assets	
Total assets of reportable segments	821,896
Property, plant and equipment	62,296
Investments in associates	11,500
Financial assets at FVTPL	34,594
Prepayments, deposits and other receivables	160,333
Due from associates	97,257
Due from a related company	13
Due from non-controlling shareholders	939
Cash and bank balances	72,603
Consolidated total assets	1,261,431
Liabilities	
Total liabilities of reportable segments	11,500
Accruals and other payables	22,695
Borrowings	318,808
Finance lease payables	3,686
Due to non-controlling shareholders	6,165
Due to related parties	581
Due to a director	1,680
Convertible notes	41,769
Deferred tax liabilities	165,341
Consolidated total liabilities	572,225

8. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's revenue from external customers by location of operations are detailed below:

	2018 HK$'000
Hong Kong	49,839
PRC	41,925
Consolidated total revenue	91,764

For the year ended 31 December 2018, over 90% of the Group's non-current assets (excluding investments in associates, financial assets at FVTOCI and prepayments, deposits and other receivables) are located in the PRC. Accordingly, no further geographical information of non-current assets was disclosed.

For the year ended 31 December 2017, over 90% of the Group's non-current assets (excluding investments in associates, available-for-sale financial assets and prepayments, deposits and other receivables) are located in the PRC and over 90% of the revenue are generated in the PRC. Accordingly, no further geographical information of non-current assets and revenue was disclosed.

Revenue from major customers:

	2018 HK$'000
Sales of buses	
Customer a	18,650
Customer b	17,432

Rental income and related management service income:

There are no significant concentrations of credit risk within the Group because there is a large number of diversified tenants.

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9. REVENUE

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

	2018 **HK$'000**	2017 HK$'000
Products transferred at a point in time:		
Sales of buses	**49,839**	–
Services transferred over time:		
Rental income and related management service income	**41,925**	39,076
	91,764	39,076

10. OTHER INCOME

	2018 **HK$'000**	2017 HK$'000
Dividend income	**4,694**	–
Interest income	**6,548**	8,397
Fair value gain on financial assets at FVTPL	**–**	17,112
Fair value gain on investment properties	**56,930**	–
Gain on bargain purchases on acquisition of an associate	**9,189**	–
Net foreign exchange gains	**–**	6,188
Others	**14**	–
	77,375	31,697

11. FINANCE COSTS

	2018 **HK$'000**	2017 HK$'000
Interest on bank borrowings	**20,530**	13,950
Interest on convertibles notes	**1,289**	–
Finance lease charges	**98**	2
	21,917	13,952

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For the year ended 31 December 2018

12. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	–	3,341
Under-provision in prior years	61	52
	61	3,393
Deferred tax (note 31)	14,233	(300)
	14,294	3,093

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year.

PRC Enterprise Income Tax has been provided at a rate of 25% (2017: 25%).

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to effective tax rates, is as follows:

	2018 HK$'000	2017 HK$'000
Profit before tax	28,005	26,103
Tax at applicable tax rate	9,663	5,123
Tax effect of income that is not taxable	(3,711)	(5,122)
Tax effect of expenses that are not deductible	10,955	3,030
Tax effect of temporary differences not recognised	(3,807)	10
Tax effect of tax losses not recognised	1,133	–
Under-provision in prior years	61	52
Income tax expense	14,294	3,093

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13. PROFIT FOR THE YEAR

The Group's profit for the year is arrived at after charging/(crediting):

	2018 HK$'000	2017 HK$'000
Allowance for doubtful debts	**5,700**	–
Auditor's remuneration		
– Current	**550**	500
– Under-provision in prior year	**–**	172
	550	672
Cost of services provided	**51,781**	3,124
Depreciation of property, plant and equipment		
– Owned assets	**5,432**	430
– Leased assets	**86**	92
	5,518	522
Staff cost (including directors' remuneration)		
– Salaries, bonuses and allowances	**11,941**	11,975
– Contributions to defined contribution retirement plan	**611**	626
	12,552	12,601
Minimum lease payments under operating leases on land and buildings *(note)*	**1,894**	1,663
Net foreign exchange losses/(gains)	**4,203**	(6,188)
Fair value loss/(gain) on financial assets at FVTPL	**21,662**	(17,112)
Fair value (gain)/loss on investment properties	**(56,930)**	1,199

Note:

Minimum lease payments under operating leases on land and buildings included rental for a director quarter of approximately HK$624,000 (2017: HK$624,000).

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For the year ended 31 December 2018

14. BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, Sections 383(1)(a), (b), (c), (e) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance are as follows:

	2018 HK$'000	2017 HK$'000
Fees	**600**	600
Other emoluments		
salaries, wages and other benefits	**3,036**	4,234
contributions to defined contribution retirement plan	**43**	63
	3,079	4,297
	3,679	4,897

31 December 2018	**Fees HK$'000**	**Salaries, allowance and benefits in kind HK$'000**	**Pension scheme contribution HK$'000**	**Total HK$'000**
Executive directors				
Mr. Han Junran	**–**	**1,924**	**18**	**1,942**
Mr. Luo Min	**–**	**766**	**18**	**784**
Mr. Seto Man Fai *(note (i))*	**–**	**346**	**7**	**353**
	–	**3,036**	**43**	**3,079**
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	**120**	**–**	**–**	**120**
Mr. Zheng Qing *(note (ii))*	**120**	**–**	**–**	**120**
Dr. Ouyang Qingru	**120**	**–**	**–**	**120**
Mr. Leung Kwai Wah, Alex	**120**	**–**	**–**	**120**
Mr. Zhang Jing	**120**	**–**	**–**	**120**
	600	**–**	**–**	**600**
	600	**3,036**	**43**	**3,679**

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14. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (Continued)

31 December 2017	Fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Pension scheme contribution HK$'000	Total HK$'000
Executive directors				
Mr. Han Junran	–	1,924	18	1,942
Mr. Fu Yiu Kwong *(note (iii))*	–	520	9	529
Mr. Luo Min	–	750	18	768
Mr. Seto Man Fai *(note (i))*	–	1,040	18	1,058
	–	4,234	63	4,297
Independent non-executive directors				
Mr. Chan Yiu Tung, Anthony	120	–	–	120
Mr. Zheng Qing *(note (ii))*	120	–	–	120
Dr. Ouyang Qingru	120	–	–	120
Mr. Leung Kwai Wah, Alex	120	–	–	120
Mr. Zhang Jing	120	–	–	120
	600	–	–	600
	600	4,234	63	4,897

Notes:

(i) Mr. Seto Man Fai resigned as an executive director with effect from 10 May 2018. Salaries, allowances and benefits in kind and pension scheme contributions of approximately HK$626,000 paid to him after his resignation as an executive director had not been included in the emolument analysis.

(ii) Mr. Zheng Qing resigned as an independent non-executive director with effect from 11 February 2019.

(iii) Mr. Fu Yiu Kwong resigned as an executive director with effect from 27 June 2017.

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

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (2017: Nil).

There was no discretionary bonus paid or payable to any of the directors during the year (2017: Nil).

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14. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (Continued)

The number of directors, whose remuneration fell within the following bands, is as follows:

	2018	2017
Nil to HK$1,000,000	7	7
HK$1,000,001 to HK$2,000,000	1	2
	8	9

(b) Directors' material interests in transactions, arrangements or contracts

Save for disclosed in note 36 to the consolidated financial statements, no significant transaction, arrangement and contract in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2017: four) directors, details of whose remuneration are set out in note 14 above. Details of the remuneration of the remaining two (2017: one) non-director, highest paid employees for the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	1,430	780
Pension scheme contributions	36	18
	1,466	798

There was no discretionary bonus paid or payable to any of the five highest paid employees during the year (2017: Nil).

The number of non-directors, highest paid employees, whose remuneration fell within the following bands, is as follows:

	2018	2017
Nil to HK$1,000,000	2	1

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16. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the years ended 31 December 2018 and 2017.

The calculation of basic earnings per share is based on:

	2018	2017
	HK$'000	HK$'000
Profit for the year attributable to owners of the Company, used in the basic earnings per share calculation	**13,753**	23,274

	Number of shares	
	2018	2017
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**3,381,141,886**	3,317,045,040

As the conversion of the Group's outstanding convertible notes for the year ended 31 December 2018 would be anti-dilutive, no diluted earning per share to be presented.

No adjustment has been made to the basic earnings per share for the year ended 31 December 2017 in respect of a dilution as there were no potentially dilutive ordinary shares in issue during the year ended 31 December 2017.

17. DIVIDENDS

The directors did not recommend any dividend for the year ended 31 December 2018 (2017: Nil).

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18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold building HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
At 1 January 2017	986	1,767	1,897	2,073	–	6,723
Additions	–	1,341	14	982	–	2,337
Write off	–	–	(228)	(197)	–	(425)
Exchange differences	78	293	90	61	–	522
At 31 December 2017 and 1 January 2018	1,064	3,401	1,773	2,919	–	9,157
Additions	**–**	**1,475**	**17**	**1,103**	**63,720**	**66,315**
Transfer	**–**	**43,253**	**–**	**–**	**(43,253)**	**–**
Write off	**–**	**–**	**–**	**(655)**	**–**	**(655)**
Exchange differences	**(53)**	**(1,798)**	**(62)**	**(65)**	**(780)**	**(2,758)**
At 31 December 2018	**1,011**	**46,331**	**1,728**	**3,302**	**19,687**	**72,059**
Accumulated depreciation						
At 1 January 2017	205	1,575	1,254	1,721	–	4,755
Charge for the year	21	155	81	265	–	522
Write off	–	–	(228)	(197)	–	(425)
Exchange differences	15	263	51	8	–	337
At 31 December 2017 and 1 January 2018	241	1,993	1,158	1,797	–	5,189
Charge for the year	**21**	**5,125**	**45**	**327**	**–**	**5,518**
Write off	**–**	**–**	**–**	**(655)**	**–**	**(655)**
Exchange differences	**(12)**	**(223)**	**(35)**	**(19)**	**–**	**(289)**
At 31 December 2018	**250**	**6,895**	**1,168**	**1,450**	**–**	**9,763**
Carrying amount						
At 31 December 2018	**761**	**39,436**	**560**	**1,852**	**19,687**	**62,296**
At 31 December 2017	823	1,408	615	1,122	–	3,968

At 31 December 2018, the carrying amount of motor vehicles held by the Group under finance leases amounted to approximately HK$1,017,000 (2017: Nil).

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19. INVESTMENT PROPERTIES

	The Guangzhou Properties at fair value		The Luoyang Properties at cost		Total	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Completed project						
Investment properties in Guangzhou *(note (a))*						
At 1 January	**719,340**	667,892	**–**	–	**719,340**	667,892
Fair value gains/(losses)	**56,930**	(1,199)	**–**	–	**56,930**	(1,199)
Exchange differences	**(36,180)**	52,647	**–**	–	**(36,180)**	52,647
At 31 December	**740,090**	719,340	**–**	–	**740,090**	719,340
Incomplete project						
Investment properties in Luoyang *(note (b))*						
At 1 January	**–**	–	**74,071**	68,659	**74,071**	68,659
Exchange differences	**–**	–	**(3,725)**	5,412	**(3,725)**	5,412
At 31 December	**–**	–	**70,346**	74,071	**70,346**	74,071
Total carrying amount at 31 December	**740,090**	719,340	**70,346**	74,071	**810,436**	793,411

Notes:

(a) Investment properties in Guangzhou (the "Guangzhou Properties") are situated at Nos. 20-22 Chigang West Road, Haizhu District, Guangzhou City, Guangdong Province, the PRC and are held under medium term leases. The Guangzhou Properties were leased to tenants under operating leases for earning rental income and management service income and were stated at fair value at the end of the reporting period.

The fair value of the Guangzhou Properties has been assessed by Ravia Global Appraisal Advisory Limited ("Ravia Global") (2017: Access Partner Consultancy & Appraisals Limited), an independent valuer, by using the income approach to be RMB650,000,000 (equivalent to approximately HK$740,090,000) (2017: RMB600,000,000 (equivalent to approximately HK$719,340,000)) as at 31 December 2018.

At 31 December 2018, the Guangzhou Properties with carrying amount of approximately HK$740,090,000 (2017: HK$719,340,000) were pledged to secure bank borrowings, details of which are set out in note 28 to the consolidated financial statements.

19. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(b) Investment properties in Luoyang (the "Luoyang Properties") represented the construction in progress of a parcel of land which are situated at east of Huanhu Road, south of Baita Road, west of Kaituodadao Road, and north of land boundary, Yibin District, Xinqu Luoyang, Henan, PRC. The Luoyang Properties were acquired through the acquisition of the subsidiaries during the year ended 31 December 2015. The Luoyang Properties comprise a parcel of land held under medium term leases with a site area of 69,942.185 square metres which can be developed into a total gross floor area of 173,724.12 square metres. Its carrying amount comprised the land use right and directly attributable costs and was stated at acquisition cost of approximately RMB61,782,000 (equivalent to approximately HK$70,346,000 (2017: HK$74,071,000)), and less impairment, if any. The directors are of opinion that the construction planning of the Luoyang Properties has yet been determined as at 31 December 2018 and accordingly, its fair value cannot be measured reliably.

Pursuant to a land use right agreement (國有建設用地使用權出讓合同) (the "Land Use Right Agreement") of the Luoyang Properties, which was entered into between Luoyang Wan Heng Property Company Limited (洛陽萬亨置業有限公司) ("Luoyang Wan Heng"), a subsidiary of the Company and 洛陽國土資源局 ("洛陽國土局") on 1 February 2013, Luoyang Wan Heng is required to commence and complete the construction of the Luoyang Properties on or before 1 September 2013 and 1 September 2016 (the "Construction Period"), respectively. A penalty (the "Penalty") is calculated at 0.1% per day on the original consideration paid by Luoyang Wan Heng for the land use right, which was approximately RMB31,270,000 (equivalent to approximately HK$35,604,000), will be imposed by 洛陽國土局 if the construction of the Luoyang Properties was not commenced on time or the completion of the construction falls beyond the Construction Period. The land use right may also be forfeited (the "Forfeiture") by 洛陽國土局 if the construction has not been completed beyond 60 days of the Construction Period.

On 17 November 2016, the Group received a notice from 洛陽市城鄉一體化示範區管理委員會國土環保局, pursuant to which, the Group is required to commence the construction of the Luoyang Properties within 15 days after the date of the notice unless the Group has a reasonable excuse. The Group replied and expected to have the construction work commenced in June 2017. On 26 June 2017, the Group received a 閒置土地調查通知書 (the "Notice of Investigation of Idle Land") from 洛陽國土局, pursuant to which, the Group is required to report the construction progress of the Luoyang Properties to 洛陽國土局. On 26 July 2017, the Group replied and explained that the delay of the construction of the Luoyang Properties was due to the changing of land policy by the Luoyang government. The Group expected to commence work at the end of 2017. On 5 December 2017, the Group submitted a construction plan of the Luoyang Properties to 洛陽市城鄉規劃局 ("洛陽規劃局"). After reviewed by 洛陽規劃局, the Group was instructed to modify certain aspects of the construction plan. On 23 June 2018, the Group has been further instructed by 洛陽新區中央商務區規劃建設辦公室 to submit a revised construction plan to 洛陽市城鄉一體化示範區商務中心區辦公室 for approval and the document was submitted on 17 July 2018.

Up to the approval date on these consolidated financial statements, the construction plan of the Luoyang Properties has yet been approved by 洛陽市城鄉一體化示範區商務中心區辦公室.

In preparing these consolidated financial statements, the directors had sought a legal advice from a PRC lawyer and are of the opinion that the delay of the construction of the Luoyang Properties was caused by the changing of land policy by the Luoyang government in the prior years. Given the Group is proactively communicating with 洛陽規劃局 on the modification of construction plan of the Luoyang Properties and the risk of the Penalty or the loss on the Forfeiture is remote. Accordingly, the directors are of the opinion that no provision in respect of the Penalty and/or the Forfeiture, if any, has been made in the consolidated financial statements as at 31 December 2018 and 2017.

Impairment assessment of the Luoyang Properties

The recoverable amount of the Luoyang Properties has been assessed by Ravia Global, as at 31 December 2018. No impairment in respect of the Luoyang Properties has been provided as the recoverable amount of the Luoyang Properties was higher than its carrying amount as at 31 December 2018 (2017: Nil).

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20. INVESTMENTS IN ASSOCIATES

	2018 **HK$'000**	2017 HK$'000
Unlisted investments:		
Share of net assets	**11,500**	–

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

Name	**Place of incorporation**	**Issued and paid up capital**	**Percentage of ownership interest**	**Principal activities**
New City Fortune Medicare Group Limited ("New City Fortune Medicare") *(note (a))*	Hong Kong	HK$100	34% (2017: 34%)	Investment holding
Zhuhai Teng Shun Industrial Company Limited (珠海市騰順實業有限公司) ("Zhuhai Teng Shun") *(note (b))*	PRC	RMB3,000,000	39.12% (2017: Nil)	Property development

Notes:

(a) New City Fortune Medicare was incorporated in Hong Kong on 26 September 2014, with issued share capital of HK$100. The investment cost in an associate has been presented as "-" as a result of rounding as at 31 December 2017. Except for the capital commitment as mentioned in note 38(a) to the consolidated financial statements, the associate did not have any material assets and liabilities as at 31 December 2018 and 2017 and therefore, the Group did not share its net assets during the years ended 31 December 2018 and 2017.

(b) On 30 December 2018, the Group acquired 39.12% of the equity interest of Zhuhai Teng Shun for a total consideration of RMB1,173,600 (equivalent to approximately HK$1,336,000). The fair value of the identifiable assets and liabilities of Zhuhai Teng Shun acquired as at the date of acquisition is RMB10,100,000 (equivalent to approximately HK$11,500,000). Pursuant to the equity transfer agreement, the vendor had also granted a call option with fair value of approximately RMB22,000 (equivalent to approximately HK$25,000) to the Group ("Call Option"), for which the Group shall have the right (but not the obligation) in acquiring a further 30.88% of the equity interest in the Zhuhai Teng Shun at an exercise price in the sum of RMB50,000,000 (equivalent to approximately HK$56,930,000), which is exercisable within one year from the date of the equity transfer agreement, that is, by 30 December 2019.

The Group holds 39.12% of the equity interest and the Call Option, for which the Group shall have the right (but not the obligation) in acquiring a further 30.88% of the equity interest in the Zhuhai Teng Shun. Due to certain contractual arrangements with other shareholders of Zhuhai Teng Shun, the other shareholders has control over Zhuhai Teng Shun. The directors of the opinion that the Group does have significant influence over Zhuhai Teng Shun and it is therefore classified as an associate of the Group.

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table shows information on an associate that are material to the Group. This associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associate.

Name	**Zhuhai Teng Shun**	
	2018	2017
Principal place of business/country of incorporation	**PRC/PRC**	
Principal activities	**Property development**	
% of ownership interests/voting rights held by the Group	**39.12%/39.12%**	0%/0%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**295,744**	N/A
Current assets	**9,432**	N/A
Current liabilities	**(319,020)**	N/A
Net liabilities	**(13,844)**	N/A
Group's share of net assets	**–**	N/A
Year ended 31 December:		
Revenue	**–**	N/A
Profit and other comprehensive income for the year	**–**	N/A

As at 31 December 2018, the bank and cash balances of the Group' associates in the PRC denominated in RMB amounted to approximately HK$7,161,000 (2017: Nil). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

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21. FINANCIAL ASSETS AT FVTOCI (2017: AVAILABLE-FOR-SALES FINANCIAL ASSETS)

	2018	2017
	HK$'000	HK$'000
Unlisted equity investments *(note)*	**–**	–

Note:

The above investments represented 8% equity interest in New City (China) Vocational Education Investments Group Limited ("New City (China)"), with investment cost of HK$8. The investments have been presented as "-" as a result of rounding. The directors are of the opinion that the cost was the best estimate of fair value for the unlisted equity investments with reference to the application guidance of HKFRS 9.

22. FINANCIAL ASSETS AT FVTPL

	2018	2017
	HK$'000	HK$'000
Listed equity investment in Taiwan *(note (a))*	**34,569**	57,906
Call Option designated at financial assets at FVTPL *(note (b))*	**25**	–
Current portion	**34,594**	57,906

Notes:

(a) The fair value of the listed equity investment as at 31 December 2018 was determined based on the quoted market bid prices (Level 1 fair value measurement) available on The Taiwan Stock Exchange.

(b) As disclosed in note 20 to the consolidated financial statements, the amount represents the fair value of Call Option granted by the vendor in connection with the acquisition of 39.12% of the equity interest of Zhuhai Teng Shun on 30 December 2018.

The fair value of the Call Option designated at financial assets at FVTPL has been assessed by Ravia Global by using the Binomial Option Pricing Model to be approximately RMB22,000 (equivalent to approximately HK$25,000) (Level 3 fair value measurement) (2017: Nil) as at 31 December 2018.

The carrying amounts of the Group's financial assets at FVTPL are denominated in the following currencies:

	2018	2017
	HK$'000	HK$'000
NT$	**34,569**	57,906
RMB	**25**	–
	34,594	57,906

Notes to the Consolidated Financial Statements

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Prepayments		
– Prepaid professional fee for the Luoyang Properties *(note (a))*	**1,959**	1,806
– Prepaid renovation and improvement costs of the Guangzhou Properties *(note (b))*	**–**	47,154
– Others	**1,358**	780
Deposits held by		
– Vision Products Limited ("Vision Products") *(note (c))*	**5,980**	5,980
– An independent contractor *(note (c))*	**49,520**	49,520
– 珠海市潤珠商貿有限公司 ("珠海潤珠") *(note (d))*	**39,851**	41,962
– Zhuhai Teng Shun *(note (e))*	**–**	11,989
– Others	**1,097**	289
Other receivables		
– Due from北京中證房地產開發有限公司 ("北京中證") *(note (f))*	**50,307**	47,616
– Others	**15,961**	4,480
	166,033	211,576
Less: Allowance for doubtful debts	**(5,700)**	–
	160,333	211,576
Less: Non-current portion	**(139,958)**	(206,027)
Current portion	**20,375**	5,549

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes:

(a) The prepaid professional fee represented design and environmental assessment fees paid to independent construction consultants for the Luoyang Properties with a total contract sum of RMB11,119,000 (equivalent to approximately HK$12,660,000) (2017: RMB11,119,000 (equivalent to approximately HK$13,331,000)). As at 31 December 2018, an aggregate amount of approximately RMB1,720,000 (equivalent to approximately HK$1,959,000) (2017: RMB$1,506,000 (equivalent to approximately HK$1,806,000)) has been prepaid by the Group to the construction consultants.

(b) During the year ended 31 December 2017, the Group entered into certain properties renovation and improvement contracts with certain contractors for the renovation and improvement of the Guangzhou Properties with total contract sum of approximately RMB41,833,000 (equivalent to approximately HK$50,154,000). The Group prepaid those contractors with approximate RMB39,331,000 (equivalent to approximately HK$47,154,000). The prepayments were capitalised as construction in progress and leasehold improvement in the property, plant and equipment during the year ended 31 December 2018.

(c) The Group entered into a memorandum of understanding (the "Vision Products MOU") with Vision Products on 20 June 2016, pursuant to which, the Group engaged Vision Products as a consultant to lead a project on the development of cultural business in different brands and icons that the Group believes which would further contribute to the value of the Group. Vision Products has the experience and track records of building up cultural products and design of branded products and icons for various multinationals which are very popular in Europe and other markets worldwide. Pursuant to the Vision Products MOU, the Group has made deposit of approximately HK$5,980,000 (the "Vision Deposit") to Vision Products for its exclusive development for themed business so as to achieve their objective and target, (i) the attraction of family-based target consumer group with exclusive procurement of cultural products; (ii) promotion of different themes to the Group; and (iii) the nurture for people and family-based audience to become aware of our brands, products and the Group.

The Group has further taken this opportunity to leverage the expertise of Vision Products to contribute to the renovation of the Guangzhou Properties for upgrading it with new edge concept and value enhancement in collaboration with 廣州市青年設計師協會 ("GZYDA") in contributing to the design conceptualisation into the improvement of Guangzhou Properties. To ensure the technical, engineering and construction requirement can be performed to express the design conceptualisation created by Vision Products and GZYDA, Vision Products would have to seek qualified engineering company to lead the renovation of the Guangzhou Properties for the Group's final decision and appointment.

However, in order to ensure the Group is having had the financial strength and reserved funding for such appointment of a well-qualified engineering company for the project, Vision Products has requested for a refundable deposit of approximately HK$49,520,000 (the "Escrow Amount") be escrowed for the specific purpose of construction cost involved in the renovation project so these contractors being approached by Vision Products would be comfortable and the necessary funding can be swiftly transferred to the selected contractor to fix the cost of the renovation upon the completion of the formal appointment with the selected contractor. The Group would then have a direct contractual relationship with the selected contractor being appointed.

As at 31 December 2018 and 2017, the Escrow Amount was held by an independent contractor as deposit for project development of the Guangzhou Properties.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(d) On 1 October 2017, Guangdong Changliu Investment Company Limited (廣東暢流投資有限公司) ("Guangdong Changliu"), an indirect wholly-owned subsidiary of the Company, entered into a cooperation agreement (the "Cooperation Agreement") with 珠海潤珠, a company established in the PRC and the beneficial owner of 珠海市柏林國際酒店 ("柏林酒店"), pursuant to which Guangdong Changliu has agreed to enter into a cooperation arrangement with 珠海潤珠 for leasing the hotel premises of 柏林酒店, at monthly rental of RMB131,000 (equivalent to approximately HK$149,000 (2017: HK$157,000)) for a period of 15 years from 1 October 2017 to 30 September 2032, with a rent-free period of six months from the date of the Cooperation Agreement in return to participate in the financial management function of 柏林酒店 and share 85% of its profits for a period from 1 October 2017 to 30 September 2032 (the "Cooperation"). Under the Cooperation Agreement, Guangdong Changliu is required to invest a fund amounting to RMB35,000,000 (equivalent to approximately HK$39,851,000 (2017: HK$41,962,000)) (the "Investment Fund") within 30 days from the date of the Cooperation Agreement, solely for the purposes of renovation, purchases of equipment and facilities for 柏林酒店.

The Cooperation Agreement was subsequently supplemented on 31 December 2017, to further elaborate the nature and function of the Investment Fund and attach additional conditions to the Cooperation. Pursuant to the Cooperation Agreement as supplemented, the parties therein agreed that (i) the amount of Investment Fund made by Guangdong Changliu would be regarded as an earnest money paid for the proposed Cooperation and subject to satisfaction of the conditions precedent including the average occupancy rate of 柏林酒店 would be reached 80% or above during the pilot run period from 1 January 2018 to 31 December 2018 ("Pilot Run Period"); and (ii) the Investment Fund would be repayable upon request together with interest of 8% accrued thereon in the event that the average occupancy rate of 柏林酒店 was below 80% during the Pilot Run Period. During the year ended 31 December 2018, the Group entered into an extension agreement with 珠海潤珠 to extend the Pilot Run Period for one year to 31 December 2019.

After 31 December 2018, and as of the approval date on these consolidated financial statements, no further agreement in relation to the 柏林酒店 has been entered.

(e) On 10 July 2017, Guangdong Chang Yang Investment Company Limited (廣東暢揚投資股份有限公司) ("Guangdong Chang Yang"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with 陳麒名 ("Mr. Chen"), an independent third party who owned 88% equity interest in Zhuhai Teng Shun. Zhuhai Teng Shun, a company established in the PRC and principally engaged in property development, pursuant to the Equity Transfer Agreement, Guangdong Chang Yang has conditionally agreed to acquire and Mr. Chen has conditionally agreed to sell 70% equity interest of Zhuhai Teng Shun ("Equity Transfer") at a consideration of RMB2,100,000 (equivalent to approximately HK$2,518,000) ("Equity Consideration").

Under the Equity Transfer Agreement, Guangdong Chang Yang paid a deposit amounted to RMB10,000,000 (equivalent to approximately HK$11,989,000) ("Deposit"), being RMB2,100,000 (equivalent to approximately HK$2,518,000) and RMB7,900,000 (equivalent to approximately HK$9,471,000) as Equity Consideration and advancement to Zhuhai Teng Shun ("Advancement").

As disclosed in note 20 to the consolidated financial statements, on 30 December 2018, the Group acquired 39.12% of the equity interest of Zhuhai Teng Shun for a total consideration of RMB1,173,600 (equivalent to approximately HK$1,336,000). The fair value of the identifiable assets and liabilities of Zhuhai Teng Shun acquired as at the date of acquisition is RMB10,100,000 (equivalent to approximately HK$11,500,000).

The consideration of Zhuhai Teng Shun amounted to RMB1,173,600 (equivalent to approximately HK$1,336,000) was offset against the Deposit. The remaining amount of Deposit being approximately RMB8,826,000 (equivalent to approximately HK$10,050,000) was recorded as amount due from associates as at 31 December 2018.

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(f) The amount represented outstanding receivables from 北京中證, a former subsidiary of the Company which was disposed of in 2010) as a result of the following sequence of events.

The Company received a civil summons dated 15 May 2014 from the Higher People's Court of Beijing City (the "Higher Court"), pursuant to which, an application for retrial of a civil court case (the "Litigation") had been filed by 上海復旦光華信息科技股份有限公司 ("上海復旦"). The Litigation was stemmed from a series of civil court proceedings commenced by 上海復旦 in Beijing No. 1 Intermediate People's Court and the other courts in the PRC since 2003 which alleged that 北京中證 had failed to perform its obligation under a sale contract dated 27 June 2002 entered into between 北京中證 and 上海復旦 for selling certain real properties (the "Properties Transactions") in the PRC to 上海復旦 at a consideration of approximately US$1,755,000 (equivalent to approximately HK$13,749,000) (the "Allegation"). The Company became one of defendants as 上海復旦 claimed that Mr. Leung Kwo (梁戈) ("Mr. Leung"), a former director and chairman of the Company, entered into a guarantee agreement (the "Guarantee Agreement") with 上海復旦 on 28 June 2002 for and on behalf of the Company, pursuant to which, the Company acted as a guarantor to guarantee 上海復旦 that 北京中證 should perform its obligation under the Properties Transactions.

In view of the Litigation, the directors of the Company have conducted extensive investigations, in which the directors have (i) inspected all the minutes of the meetings of its board of directors from the date of its incorporation to the end of year 2013 to identify if the Allegation has ever been brought to the attention of the directors; (ii) contacted the key management personnel of 北京中證 for ascertaining the merits of the Allegation; (iii) discussed in their meeting to determine the financial impact of the Litigation and the Allegation; and (iv) sought for legal advices from the lawyers in the Cayman Islands and the PRC (collectively, the "Lawyers") in respect of the Litigation. From such investigations, the Company found that (i) there was no record showing that the Allegation has ever been brought to the attention of the directors and they did not approve and sign the Guarantee Agreement; and (ii) 北京中證 was aware of the Allegation and Litigation, but it has no records in respect of the sales of the Properties Transactions or the receipt of the sales proceeds as alleged in the Litigation.

On 29 July 2015, the Company received, through the Lawyer, the judgement dated 14 May 2015 (the "Judgement") granted by the Higher Court in respect of the Litigation, pursuant to which, the Higher Court overruled its own judgement dated 26 July 2013 and upheld the judgement dated 10 November 2010 granted by Beijing No.1 Intermediate People's Court. The Higher Court ruled that both the Properties Transactions and the Guarantee Agreement were legally effective. The Higher Court also ordered that both the Company and 北京中證 shall be jointly liable to repay to 上海復旦 the sum of approximately RMB14,530,000 (equivalent to approximately HK$16,544,000 (2017: HK$17,420,000)) together with interest accrued thereon from 1 July 2002 up to the date of payment (collectively, the "Judgement Debt") (which was preliminarily estimated by the directors to be approximately RMB27,660,000 (equivalent to approximately HK$31,494,000 (2017: HK$33,162,000)).

On 30 November 2015, the Company entered into a subscription agreement (the "Subscription Agreement") with Mr. Zhu Ya Yong (朱亞勇) (the "Subscriber"), pursuant to which, the Subscriber agreed to negotiate with 上海復旦 for the entering into a debt settlement agreement between the Company, 上海復旦 and the Subscriber. It was intended that upon the completion of the debt settlement agreement, (i) the Company's obligation to repay the Judgement Debt will be assumed or satisfied by the Subscriber; and (ii) the Company will be indebted to the Subscriber for a sum of HK$33,606,830 which will be satisfied by way of the issuing of 136,060,042 shares of the Company at a subscription price of HK$0.247 per share.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(f) (continued)

Subsequently, 北京億隆悦泰投資有限公司 ("北京億隆"), a related company of the Subscriber was nominated by the Subscriber for the negotiation with 上海復旦 and reached a settlement of the Judgement Debt at an aggregate amount of RMB27,000,000 (equivalent to approximately HK$30,742,000 (2017: HK$32,370,000)). Accordingly, the Company entered into a debt settlement agreement (執行和解協議) (the "Debt Settlement Agreement") with 上海復旦 and 北京億隆 on 9 December 2015, pursuant to which, the amount of the Judgement Debt was agreed at RMB27,000,000 (equivalent to approximately HK$30,742,000 (2017: HK$32,370,000)) which is interest-free, guaranteed and secured by a property of 北京億隆 (the "Yi Long Property") and (i) as to RMB3,000,000 (equivalent to approximately HK$3,416,000 (2017: HK$3,597,000)) payable at the date of signing of the Debt Settlement Agreement; and (ii) the remaining balance of RMB24,000,000 (equivalent to approximately HK$27,326,000 (2017: HK$28,774,000)) repayable by 4 quarterly installments on 31 March, 30 June, 30 September and 31 December 2016, respectively.

On 30 December 2015, the Company further entered into an agreement (關於執行和解協議之四方協議) (the "Four Parties Agreement") with the Subscriber, 北京億隆 and 北京創意金典投資諮詢服務有限公司 ("北京創意"), a company controlled by the Subscriber, pursuant to which, (i) the Subscriber undertakes the settlement of the Judgement Debt for the Company; (ii) 北京億隆 pledges the Yi Long Property to 上海復旦 as security against the Judgement Debt; and (iii) 北京創意 pays on behalf of the Subscriber RMB3,000,000 (equivalent to approximately HK$3,416,000 (2017: HK$3,597,000)) of the Judgement Debt. The directors are of the opinion that upon the entering of the Four Parties Agreement, the Company's obligation to repay the Judgement Debt has been assumed or satisfied by the Subscriber and therefore, the Company was indebted to the Subscriber in the sum of HK$33,606,830 which was satisfied by the issuing of 136,060,042 shares of the Company at a subscription price of HK$0.247 per share under the Subscription Agreement on 30 December 2015.

In view of the Litigation, the directors have taken appropriate actions to negotiate with 北京中證 for recovery of the Judgement Debt.

On 7 March 2016, the Company entered into an agreement (關於支付承諾款項之三方協議) (the "Debt Recovery Agreement") with 北京中證, pursuant to which, 北京中證 agreed to fully repay the Judgement Debt to the Company together with (i) an interest at 15% per annum; and (ii) a fixed fee of RMB5,000,000 (equivalent to approximately HK$5,693,000 (2017: HK$5,955,000)) as compensation (collectively, the "Recoverable Debt"). The Recoverable Debt shall be settled on or before 7 March 2018 and is guaranteed by 北京桑普新源技術有限公司 ("北京桑普"), an independent third party.

On 1 March 2018, the Company entered into a supplementary agreement (關於延期支付承諾款項之三方補充協議) (the "Debt Recovery Supplementary Agreement") with 北京中證 and 北京桑普 to further extend the settlement date of Recoverable Debt on or before 7 March 2020 by 北京中證 and 北京桑普 continues to be the guarantor of the Recoverable Debt.

The recoverability of the Recoverable Debt is also guaranteed by Mr. Han, who is responsible for its collection pursuant to a guarantee agreement entered into between Mr. Han and the Company dated 28 March 2019.

Notes to the Consolidated Financial Statements

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24. INVENTORIES

	2018 HK$'000	2017 HK$'000
Buses	**11,460**	–

At 31 December 2018 the carrying amount of inventories were stated at cost in which approximately HK$3,800,000 (2017: Nil) held by the Group under finance leases.

25. DUE FROM/TO ASSOCIATES, A RELATED COMPANY, NON-CONTROLLING SHAREHOLDERS, RELATED PARTIES AND A DIRECTOR

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

Amount due from a related company disclosed pursuant to section 383(1)(d) to the Hong Kong Companies Ordinance is as follows:

	Maximum outstanding balance during the year HK$'000	2018 HK$'000	2017 HK$'000
New City (China)	13	**13**	11

Mr. Han, a director and the ultimate controlling party of the Company was also a director of New City (China).

26. CASH AND BANK BALANCES

At the end of reporting period, cash and bank balances of the Group are denominated in the following currencies:

	2018 **HK$'000**	2017 HK$'000
HK$	**45,134**	923
USD	**4,629**	–
RMB	**22,840**	34,761
	72,603	35,684

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27. ACCRUALS AND OTHER PAYABLES

	2018 **HK$'000**	2017 HK$'000
Accrued expenses	**3,017**	5,415
Other payables	**9,713**	5,399
Due to北京誠達順逸商貿有限公司 ("北京誠達") *(note)*	**9,965**	10,493
	22,695	21,307

Note:

The amount due to 北京誠達, an independent third party and a former shareholder of Guangdong Changliu, is unsecured, interest-free and repayable on demand.

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28. BORROWINGS

	Effective interest rate	Maturity	2018 HK$'000	2017 HK$'000
Bank loan – BOGZ Loan *(note (a))*	6.713%	2027	**–**	239,780
Bank loan – CZBANK Loan *(note (b))*	8.085%	2030	**318,808**	–
			318,808	239,780
Analysed into:				
Repayable:				
– Within one year or on demand			**2,847**	3,597
– In the second to fifth years, inclusive			**68,316**	59,945
– Over five years			**247,645**	176,238
Total			**318,808**	239,780
Less: Non-current portion			**(315,961)**	(236,183)
Current portion			**2,847**	3,597

Notes:

(a) On 7 July 2017, Guangdong Changliu entered into a loan agreement with Bank of Guangzhou ("BOGZ"), pursuant to which, BOGZ agreed to grant a loan (the "BOGZ Loan") in the amount of RMB200,000,000 (equivalent to approximately HK$239,780,000) to Guangdong Changliu for a term of 10 years, which is secured by legal charges over the Guangzhou Properties and personal guarantee provided by Mr. Han. The BOGZ Loan bears interest at 6.713%, 137% of the benchmark annual lending and deposit rate of the People's Bank of China, which is repayable on a quarterly basis. The principal amount of the BOGZ Loan is repayable by 20 instalments starting from January 2018 and will mature in July 2027.

(b) On 20 June 2018, Guangdong Changliu entered into a loan agreement with China Zheshang Bank Co., Ltd. ("CZBANK"), pursuant to which, CZBANK agreed to grant a loan (the "CZBANK Loan") in the amount of RMB280,000,000 (equivalent to approximately HK$318,808,000) to Guangdong Changliu for a term of 12 years, which is secured by legal charges over the Guangzhou Properties and personal guarantee provided by Mr. Han. The CZBANK Loan bears interest at 8.085%, 165% of the benchmark annual lending and deposit rate of the People's Bank of China, which is repayable on a quarterly basis. The principal amount of the CZBANK Loan is repayable by 48 instalments starting from 20 September 2019 and will mature on 7 May 2030.

29. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**717**	–	**557**	–
In the second to fifth years, inclusive	**2,669**	–	**2,321**	–
After five years	**839**	–	**808**	–
	4,225	–	**3,686**	–
Less: Future finance charges	**(539)**	–	**N/A**	N/A
Present value of lease obligations	**3,686**	–	**3,686**	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(557)**	–
Amount due for settlement after 12 months			**3,129**	–

The Group leased certain of its motor vehicles and inventories under finance leases. The average lease term is 5 – 7 years (2017: Nil). At 31 December 2018, the average effective borrowing rate was 4.25% – 6.05% (2017: Nil). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicles and inventories at nominal prices.

All finance lease payables are denominated in Hong Kong dollars.

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30. CONVERTIBLE NOTES

On 16 May 2018 and 19 July 2018, the Company issued two convertible notes with face value of HK$35,000,000 ("CN1") and HK$43,200,000 ("CN2") respectively to independent third parties. The holder of CN1 is entitled to convert CN1 into ordinary shares of the Company at the conversion price of HK$0.215 per ordinary share at any time between the date of issue of the CN1 and 15 May 2020. The holder of CN2 is entitled to convert CN2 into ordinary shares of the Company at the conversion price of HK$0.32 per ordinary share at any time between the date of issue of the CN2 and 18 July 2020. CN1 and CN2 bear interest of 2% and 2% respectively which will be paid on their maturity dates or, if earlier, upon conversion or redemption of the convertible notes.

The net proceeds amounted to HK$35,000,000 and HK$43,200,000 received from the issue of the CN1 and CN2 respectively have been split between the liability component and an equity component, as follows:

	2018 **HK$'000**	2017 HK$'000
Face value of convertible notes issued	**78,200**	–
Equity component	**(4,049)**	–
Liability component at the date of issue	**74,151**	–
Imputed interest charged	**1,289**	–
Conversion of CN1	**(33,671)**	–
	41,769	–

The interest charged is calculated by applying an effective interest rate of 4.56% and 4.93% to the liability component of the CN1 and CN2 respectively.

On 25 June 2018 and 23 October 2018, face value of HK$21,500,000 and HK$13,500,000 of CN1 had been converted into 100,000,000 and 62,790,697 ordinary shares of the Company respectively. The CN1 was fully converted as at 31 December 2018.

The directors estimate the fair value of the liability component of the CN2 at 31 December 2018 approximately to be its fair value which has been calculated by discounting the future cash flows at the market rate (level 2 fair value measurements).

31. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities are as follows:

	Fair value changes on the investment properties HK$'000
At 1 January 2017	147,763
Credited to the profit or loss for the year *(note 12)*	(300)
Exchange differences	11,648
At 31 December 2017 and 1 January 2018	159,111
Charged to profit or loss for the year *(note 12)*	**14,233**
Exchange differences	**(8,003)**
At 31 December 2018	**165,341**

The above deferred tax liabilities represented taxable temporary differences arising from the fair value changes on the investment properties calculated at the rate of 25% (2017: 25%) during the year ended 31 December 2018.

At the end of the reporting period the Group has unused tax losses of approximately HK$4,615,000 (2017: HK$255,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB3,829,000 (equivalent to approximately HK$4,360,000) (2017: Nil) that will expire in five years. Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB34,847,000 (equivalent to approximately HK$39,677,000) (2017: RMB38,676,000 (equivalent to approximately HK$46,369,000)). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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32. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.004 each		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**10,000,000,000**	**40,000**
Issued and fully paid:		
Ordinary shares of HK$0.004 each		
At 1 January 2017, 31 December 2017 and 1 January 2018	3,317,045,040	13,268
Conversion of convertible notes (note)	**162,790,697**	**651**
At 31 December 2018	**3,479,835,737**	**13,919**

Note:

On 25 June 2018 and 23 October 2018, face value of HK$21,500,000 and HK$13,500,000 of CN1 had been converted into 100,000,000 and 62,790,697 ordinary shares of the Company respectively. The premium on the conversion of CN1, amounting to approximately HK$34,714,000, was credited to the Company's share premium account.

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Nature and purpose of reserves

(a) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

(b) Contributed surplus

Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the reorganisation.

(c) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(c) to the consolidated financial statements.

(d) Convertible notes reserve

The convertible notes reserve represents the value of the unexercised equity component of convertible notes issued by the Company resognised in accordance with the accounting policy adopted for convertible notes in note 4(n) to the consolidated financial statements.

(e) Statutory reserve

In accordance with the PRC Company Law and the Group's PRC subsidiaries' articles of association, the Group's PRC subsidiaries are required to allocate 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to PRC companies to the statutory reserve until such reserve reaches 50% of the registered capital. The appropriation to the reserve must be made before any distribution of dividends to equity holders. The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as paid-in capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the paid-in capital of the Group's subsidiaries.

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

(a) Statement of financial position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investments in subsidiaries	**34,481**	34,481
Prepayments, deposits and other receivables	**97,490**	103,116
	131,971	137,597
Current assets		
Financial assets at FVTPL	**34,569**	57,906
Prepayments, deposits and other receivables	**11,365**	519
Due from subsidiaries	**273,374**	207,916
Cash and bank balances	**4,700**	62
	324,008	266,403
Current liabilities		
Accruals and other payables	**2,083**	1,765
Due to subsidiaries	**87,236**	87,236
Due to a director	**1,680**	1,560
	90,999	90,561
Net current assets	**233,009**	175,842
Total assets less current liabilities	**364,980**	313,439
Non-current liabilities		
Convertible notes	**41,769**	–
Net assets	**323,211**	313,439

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

34. STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY (CONTINUED)

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

	2018 HK$'000	2017 HK$'000
Equity		
Share capital	**13,919**	13,268
Reserves *(note 34(b))*	**309,292**	300,171
Total equity	**323,211**	313,439

Approved and authorised for issue by the Board of Directors on 28 March 2019.

Mr. Han Junran	**Mr. Luo Min**
Director	Director

(b) Reserves movement of the Company

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Special reserve HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	457,758	306,450	–	(487,225)	276,983
Profit and total comprehensive income for the year	–	–	–	23,188	23,188
At 31 December 2017 and 1 January 2018	457,758	306,450	–	(464,037)	300,171
Issued of convertible notes	**–**	**–**	**4,049**	**–**	**4,049**
Conversion of convertible notes	**34,714**	**–**	**(1,694)**	**–**	**33,020**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**(27,948)**	**(27,948)**
At 31 December 2018	**492,472**	**306,450**	**2,355**	**(491,985)**	**309,292**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

35. CONTINGENT LIABILITIES

Save as those disclosed in note 19(b) to the consolidated financial statements, the Group did not have any material contingent liabilities as at 31 December 2018 and 2017.

36. RELATED PARTY TRANSACTIONS

(a) Save as those disclosed elsewhere in these consolidation financial statements, the Group had the following material transactions with related/connected companies during the year:

	2018 **HK$'000**	2017 HK$'000
Rental expenses paid to related/connected companies	**1,542**	1,542

(b) Compensation of key management personnel of the Group:

	2018 **HK$'000**	2017 HK$'000
Fees	**600**	600
Other emoluments		
salaries, wages and other benefits	**4,466**	5,014
contributions to defined contribution retirement plan	**79**	81
	4,545	5,095
	5,145	5,695

Further details of directors' and the chief executive's emoluments are set out in notes 14 and 15 to the consolidated financial statements.

The number of directors, chief executive and key management personnel of the Group, whose remuneration/compensation fell within the following bands is as follows:

	2018	2017
Nil to HK$1,000,000	**9**	8
HK$1,000,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$10,000,000	**–**	–
Over HK$10,000,000	**–**	–
	10	10

37. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases the Guangzhou Properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 6 years (2017: 1 to 5 years).

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**19,908**	24,771
In the second to fifth years inclusive	**31,530**	21,221
	51,438	45,992

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 4 years (2017: 2 to 4 years).

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**1,904**	808
In the second to fifth years inclusive	**912**	371
	2,816	1,179

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

38. OTHER COMMITMENTS

In addition to the operating lease commitments detailed in note 37 to the consolidated financial statements, the Group had the following commitments at the end of the reporting period:

(a) Capital injection

On 12 July 2014, the Company entered into a letter of intent for co-operation with an independent third party (the "Partner"), pursuant to which, a Hong Kong company, New City Fortune Medicare Group Limited ("NC Fortune Medicare") was incorporated, of which, 34% equity interest in NC Fortune Medicare was held by the Group. NC Fortune Medicare will then set up a wholly-owned subsidiary in Shanghai (the "Shanghai Subsidiary") for the development of medicare business in various cities in the PRC. The registered capital of the Shanghai Subsidiary will be RMB1,000,000 (equivalent to approximately HK$1,139,000 (2017: HK$1,199,000)), which shall be financed by all the shareholders of NC Fortune Medicare in proportion to their respective shareholdings therein. The Shanghai Subsidiary has not been established as at the date of approving these consolidated financial statements. As at 31 December 2018, none of the RMB340,000 (equivalent to approximately HK$387,000 (2017: HK$408,000)), being the contribution by the Group, has been injected by the Company to the Shanghai Subsidiary through NC Fortune Medicare.

(b) Capital commitment

	2018 **HK$'000**	2017 HK$'000
Construction design contracts for the Luoyang Properties *(note 23 (a))*	**10,701**	11,525
Renovation and improvement costs for the Guangzhou Properties *(note 23 (b))*	**–**	3,000
	10,701	14,525

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

Additions to property, plant and equipment and purchase of inventories during the year of approximately HK$960,000 and HK$2,900,000 were financed by finance leases.

As mentioned in note 23(b), prepayments of HK$47,154,000 were capitalised as construction in progress and leasehold improvement in the property, plant and equipment during the year ended 31 December 2018.

(b) Reconciliation of liabilities arising from financing activities

The table set forth below is the detail changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings HK$'000	Convertible notes HK$'000	Finance lease payables HK$'000	Total HK$'000
At 1 January 2017	200,034	–	101	200,135
Cash flow	14,226	–	(103)	14,123
Interest expenses	13,950	–	–	13,950
Finance lease charges	–	–	2	2
Exchange differences	11,570	–	–	11,570
At 31 December 2017 and 1 January 2018	239,780	–	–	239,780
Cash flow	**74,166**	**78,200**	**(272)**	**152,094**
Purchases of property, plant and equipment and inventories	**–**	**–**	**3,860**	**3,860**
Equity component of convertible notes	**–**	**(4,049)**	**–**	**(4,049)**
Conversion of convertible notes	**–**	**(33,671)**	**–**	**(33,671)**
Interest expenses	**20,530**	**1,289**	**–**	**21,819**
Finance lease charges	**–**	**–**	**98**	**98**
Exchange differences	**(15,668)**	**–**	**–**	**(15,668)**
At 31 December 2018	**318,808**	**41,769**	**3,686**	**364,263**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

40. SUBSIDIARIES

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

Name	Place of incorporation/ establishment	Registered/ issued and paid up capital	Percentage of ownership interest		Principal activities and place of operation
			Direct	Indirect	
NR (BVI) Holdings Limited	BVI	US$47,001	100%	–	Investment holding, Hong Kong
Polywell Finance Corporation	BVI	US$1	100%	–	Investment holding, Hong Kong
Easy Frontier Holdings Limited	BVI	US$1	100%	–	Investment holding, Hong Kong
New City Education Investment Holdings Limited	BVI	US$1	100%	–	Investment holding, Hong Kong
New City Medicare Investment Holdings Limited	Samoa	US$1	100%	–	Investment holding, Hong Kong
New City Aviation Investment Holdings Limited	Hong Kong	HK$100	100%	–	Investment holding, Hong Kong
New City Cultural Investment Holdings Limited	Hong Kong	HK$100	100%	–	Investment holding, Hong Kong
Perfection King Limited	Hong Kong	HK$1	100%	–	Investment holding, Hong Kong
New City Development Services Holdings Limited	Samoa	US$1	100%	–	Investment holding, Hong Kong
Ultimate Perfect Limited	Samoa	US$1	100%	–	Investment holding, Hong Kong
New Rank (BVI 2) Limited	BVI	US$36,000	–	100%	Investment holding, Hong Kong
Precise Assets Limited	BVI	US$1	–	100%	Investment holding, Hong Kong
Team Success Management Limited	BVI	US$1	–	100%	Inactive, Hong Kong
New Rank Services Limited	Hong Kong	HK$2	–	100%	General management, Hong Kong
Very Best Investments Limited	BVI	US$1	–	100%	Inactive, Hong Kong
Brilliant Centre Limited	Hong Kong	HK$1	–	100%	Inactive, Hong Kong
French Land Limited	Marshall Islands	US$50,000	–	100%	Investment holding, Hong Kong
Fudi International Holding Co., Limited	Hong Kong	HK$10,000	–	100%	Investment holding, Hong Kong

40. SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Registered/ issued and paid up capital	Percentage of ownership interest		Principal activities and place of operation
			Direct	Indirect	
Guangdong Changliu	PRC	RMB40,000,000	–	100%	Property development and investment, PRC
Kayuan Enterprise Investment Co., Limited	Marshall Islands	US$50,000	–	100%	Inactive, Hong Kong
Novel Apex Investments Limited	Hong Kong	HK$1	–	100%	Investment holding, Hong Kong
New City Bus Investment Limited	Hong Kong	HK$100	–	100%	Sales of buses, Hong Kong
Faith Onward (Hong Kong) Investments Limited	Hong Kong	HK$1	–	100%	Investment holding, Hong Kong
信誠(洛陽)酒店物業管理有限公司	PRC	RMB2,000,000	–	90%	Investment holding, PRC
Luoyang Wan Heng	PRC	RMB8,000,000	–	90%	Property development and investment, PRC
Guangdong Chang Yang	PRC	RMB10,000,000	–	70%	Investment holding, PRC
廣州暢影影視製作有限公司	PRC	RMB3,000,000	–	60%	Inactive, PRC
惠州市新暢揚實業投資有限公司	PRC	RMB10,000,000	–	70%	Inactive, PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

40. SUBSIDIARIES (CONTINUED)

The following table shows information on the subsidiary that has non-controlling interests material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	**Luoyang Wan Heng**	
Principal place of business/country of incorporation	**PRC/PRC**	
	2018	2017
% of ownership interests/voting rights held by non-controlling interests	**10%/10%**	10%/10%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**43,316**	45,457
Current assets	**40**	17
Current liabilities	**(39,170)**	(40,438)
Net assets	**4,186**	5,036
Accumulated non-controlling interests	**419**	504
Year ended 31 December:		
Revenue	**–**	–
Loss for the year	**(699)**	(771)
Total comprehensive income	**(699)**	(771)
Loss allocated to non-controlling interests	**(70)**	(77)
Net cash generated from operating activities	**35**	5
Net increase in cash and cash equivalents	**35**	5

41. EVENTS AFTER THE REPORTING PERIOD

On 17 February 2019, the Very Best Investments Limited (the "Purchaser"), a subsidiary of the Company, entered into a sale and purchase agreement (the "Gold Channel Acquisition Agreement") with Junyi Investment Limited (the "Vendor"), the immediate and ultimate parent of the Company, and the Mr. Han (as guarantor of the Vendor). Pursuant to the Gold Channel Acquisition Agreement, the Group agree to acquire (i) the entire issued share capital of Gold Channel Holdings Limited (the "Target Company") and its subsidiaries, (collectively, the "Target Group"); and (ii) the amounts due to the Vendor of approximately HK$205,047,000 by the Target Group at a total consideration of HK$522,648,000 (the "Gold Channel Acquisition"). The Target Group is principally engaged in the property development and investment in the PRC.

On 15 March 2019, after having considered the status of the investment properties of Target Group, certain terms of the Gold Channel Acquisition Agreement may have to be re-considered. As negotiations may take time, the directors of the Company intends to suspend the Gold Channel Acquisition and as a result, the Purchaser, the Vendor and Mr. Han entered into a termination agreement (the "Termination Agreement") whereby the parties mutually agreed to terminate the Gold Channel Acquisition Agreement with effect from the date of the Termination Agreement.

Details of the above are set in the Company's announcements dated 18 February 2019 and 18 March 2019.

42. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are approved and authorised for issue by the Board of Directors on 28 March 2019.

Five Year Financial Summary

31 December 2018

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK'000	HK'000
REVENUE	**91,764**	39,076	34,982	39,064	43,808
Cost of goods sold and services provided	**(51,781)**	(3,124)	(3,116)	(3,358)	(3,943)
Gross profit	**39,983**	35,952	31,866	35,706	39,865
Other income	**77,375**	31,697	8,757	14,280	41,900
Administrative and other operating expenses	**(67,436)**	(27,594)	(24,973)	(25,194)	(21,900)
Finance costs	**(21,917)**	(13,952)	(12,721)	(15,998)	(12,854)
PROFIT BEFORE TAX	**28,005**	(26,103)	2,929	8,794	47,011
Income tax expense	**(14,294)**	(3,093)	(1,710)	(5,079)	(14,047)
PROFIT FOR THE YEAR	**13,711**	(23,010)	1,219	3,715	32,964
Profit for the year attributable to:					
Owners of the Company	**13,753**	23,274	1,294	3,715	32,946
Non-controlling interests	**(42)**	(264)	(75)	–	–
	13,711	23,010	1,219	3,715	32,946

ASSETS AND LIABILITIES

	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK'000
TOTAL ASSETS	**1,261,431**	1,104,147	980,331	1,114,443	774,665
TOTAL LIABILITIES	**(572,225)**	(440,410)	(376,638)	(485,011)	(332,218)
NON-CONTROLLING INTERESTS	**197**	(438)	(435)	(553)	–
	689,403	663,299	603,258	628,879	442,447