Zhuguang Holdings Group Company Limited

(incorporated in Bermuda with limited liability)

Stock Code : 1176

珠光控股
ZHUGUANG HOLDINGS

ANNUAL REPORT
2018

**For identification purposes only*

CONTENTS

Corporate Information	2
Milestone 2018	4
Chairman's Statement	5
Management Discussion and Analysis	8
Environmental, Social and Governance (ESG) Report 2018	27
Biography of Directors	53
Corporate Governance Report	56
Directors' Report	76
Independent Auditor's Report	104
Consolidated Statement of Profit or Loss	111
Consolidated Statement of Comprehensive Income	112
Consolidated Statement of Financial Position	113
Consolidated Statement of Changes in Equity	115
Consolidated Statement of Cash Flows	116
Notes to the Consolidated Financial Statements	118
Five-year Financial Summary	219
Particulars of Properties	220

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chu Hing Tsung (alias Mr. Zhu Qing Yi) *(Chairman)*
Mr. Liu Jie *(Chief Executive Officer)*
Mr. Liao Tengjia *(Deputy Chairman)*
Mr. Huang Jiajue *(Deputy Chairman)*
Mr. Chu Muk Chi (alias Mr. Zhu La Yi)
Ms. Ye Lixia

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Wo Ping *JP*
Mr. Wong Chi Keung
Dr. Feng Ke

AUDIT COMMITTEE

Mr. Leung Wo Ping *JP (Committee Chairman)*
Mr. Wong Chi Keung
Dr. Feng Ke

REMUNERATION COMMITTEE

Mr. Wong Chi Keung *(Committee Chairman)*
Mr. Leung Wo Ping *JP*
Mr. Huang Jiajue

NOMINATION COMMITTEE

Mr. Wong Chi Keung *(Committee Chairman)*
Mr. Leung Wo Ping *JP*
Mr. Huang Jiajue

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Room 5702-5703, 57th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

COMPANY SECRETARY

Mr. Chan Chit Ming, Joeie

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

LEGAL ADVISORS ON HONG KONG LAW

LCH Lawyers LLP
Room 702, 7/F.
Admiralty Centre Tower One
18 Harcourt Road
Admiralty
Hong Kong

LEGAL ADVISORS ON BERMUDA LAW

Conyers Dill & Pearman
29th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Agricultural Bank of China Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China Limited

WEBSITE

www.zhuguang.com.hk

STOCK CODE

1176

MILESTONE 2018

The unit design of the large-sized Unit 01, Block A6, the Yujing Scenic Garden was granted with the "Southern Metropolis Daily — 2018 Top 11 Golden Unit Design in the Evaluation of Golden Unit Designs in Guangzhou* (南都傳媒 — 2018廣州金牌戶型評薦十一金牌戶型)".

Yujing Scenic Garden was awarded as the "Best Property with High Investment Value* (投資價值臻品樓盤)" and the "Popular Internet Property* (網紅人氣樓盤)" in the Baidu 99 Quality Houses Festival* (百度99好房節)

Yujing Scenic Garden was awarded as "Star Property of the Year* (年度人氣明星樓盤)" under the 2018 Top Property Enterprises in China* (2018年度中國地產冠軍榜) co-organised by Guangdong Chamber of Real Estate* (廣東省地產商會) and NetEase

Pearl Yijing was awarded as "Sina Leju — 2018 Quality Property* (新浪樂居 — 2018年度品質樓盤)"

* *English name is translated for identification purpose only*

CHAIRMAN'S STATEMENT

I herein present the results and report on the operations of Zhuguang Holdings Group Company Limited ("Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2018 ("FY2018").

RESULTS

The consolidated results of the Group for FY2018 are as follows: (1) the consolidated revenue of the Group for FY2018 was approximately HK$2,704,796,000, representing a decrease of 2.2% as compared to that of approximately HK$2,766,510,000 for the financial year ended 31 December 2017 ("FY2017"); (2) the consolidated gross profit of the Group increased by 6.8% to approximately HK$1,087,787,000; and (3) the consolidated profit of the Group for FY2018 was approximately HK$77,852,000, representing a decrease of 46.5% as compared to that of approximately HK$145,438,000 for FY2017. The audited consolidated profit attributable to the equity holders of the Company for FY2018 was approximately HK$4,717,000 and the basic loss per share was HK0.06 cents, which were lower as compared with the audited consolidated profit attributable to the equity holders of the Company of approximately HK$174,401,000 and the basic earnings per share of HK2.71 cents for FY2017.

NET ASSET VALUE

The consolidated net asset value per share attributable to the owners of the Company as at 31 December 2018 was approximately HK$1.05 based on 6,424,417,247 ordinary shares ("Shares") in issue, representing an increase of 38.2% as compared with that of approximately HK$0.76 per Share as at 31 December 2017.

BUSINESS REVIEW

Looking back at FY2018, there were uncertainties as the government policy of the People's Republic of China ("PRC") in relation to the real estate market and the industry adjustments were unclear. At the working conferences held in late 2018, the central government of the PRC expressly indicated that it was necessary to build a long-term mechanism for the healthy development of the real estate market, insisting that "houses are built to be lived in, not for speculation* (房子是用來住的、不是用來炒的)".

FY2018 was the most severe year in history for the real estate industry in the PRC, and "no speculation of residential properties" became the general principle for the regulation of the real estate market. In such a difficult environment, the Company has thoroughly studied the necessity and direction of the Company's reforms based on the reform ideas of its board ("Board") of directors ("Directors"), and set up two major working groups that operate independently: (1) the real estate group; and (2) the urban renewal group, which continue to maximise their respective strengths and advantages to deepen the structural reform and design optimisation of the Group, with a view to achieve "dual-driven" development, further details of which are set out below.

The real estate group of the Company is positioned as a secondary land developer with its mission to deliver value-guaranteed and value-appreciated high-quality projects that are well received by customers through various efforts, including steering the direction of the Group's development, exerting the Group's own strengths and focusing on providing higher-quality products and implementing tight control over the Group's costs, as well as providing supporting services to the property owners. The urban renewal group of the Company is positioned as a primary land consolidating service provider that is in charge of the Group's most important source of land supply in the coming three years and where the Group's features and advantages of future development lies.

** English name is translated for identification purpose only*

CHAIRMAN'S STATEMENT

The Group has actively expanded into new business areas while consolidating its existing operations. During FY2018, the Group completed the acquisitions ("Silver Grant Acquisitions") of approximately 29.56% interest of the issued share capital of Silver Grant International Industries Limited (銀建國際實業有限公司) ("Silver Grant") , a company which is principally engaged in property investment, securities trading, property leasing, other investments, production and trading of petrochemical products and the provision of sub-contracting service, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") with stock code: 0171, for the aggregate consideration of approximately HK$2,058,415,000.

LAND ACQUISITIONS

The Group's efforts in maintaining a sufficient land bank and designing accurate urban layout have laid a solid foundation for its future developments. During FY2018, the Group completed the acquisition of 100% of the equity interest of Guangzhou Zhuguang Property Company Limited* (廣州珠光置業有限公司) ("Guangzhou Zhuguang Property"), which indirectly holds interests in a development project known as "Hua Cheng Yujing Garden* (花城御景花園)" (formerly known as "Zhujiang Xincheng Yujing* (珠江新城御景)") located at Zhujiang Xincheng, Tianhe District, Guangzhou City, Guangdong Province, the PRC. With the successful experience of such development project which involved urban village transformation (城中村改造) and the Group's broad business layout in Guangzhou, the Group has gradually established a reputation as an "urban renewal expert (城市更新專家)" in the industry. In FY2018, the Group has achieved phased results in the urban village transformation project located at Huocun, Eastern District, Luogang District, Guangzhou City, which provided guarantee for the Group's land supply in the next three years. As at 31 December 2018, the Group had land bank of approximately 29,239 square meters ("sqm"), together with the existing projects under development, which would be sufficient to support the needs of the Group over the next three years. During FY2018, the Group's contract sales were contributed by the Group's projects in first-tier cities and second-tier cities in the PRC. Such a diverse market mix demonstrates the Group's ability to adapt itself to different market segments and to effectively cater for the market volatility brought by government control policies on the real estate market in the PRC. Meanwhile, the Group will adopt prudent and proactive strategies to increase its quality land reserves as appropriate by acquiring quality land when the opportunities arise.

FINANCING COSTS AND CHANNELS

As at 31 December 2018, the gearing ratio of the Group was 64% (31 December 2017: 56%). The substantial increase in gearing ratio was mainly due to the loans incurred to finance the Silver Grant Acquisitions and new bank and other borrowings incurred by the Group, and the increase in the prepayment of deposits for potential acquisitions which decreased the cash on hand. As at 31 December 2018, the bank balances and cash of the Company amounted to approximately HK$6,993 million (31 December 2017: HK$4,575 million) and the balance of the interest-bearing debts amounted to approximately HK$19,145 million (31 December 2017: HK$11,162 million). The weighted average cost of capital was 8.13% in FY2018 (FY2017: 8.29%).

In FY2018, except for the financing in relation to the Silver Grant Acquisitions as stated aforesaid, the Company has been committed to enhancing the communication with its shareholders ("Shareholders") and its dedication in investor relationship. Through various approaches, such as holding an investor forum, an investment promotion conference and project visits, the Company has maintained smooth communication with its Shareholders and investors in an effective manner, and enabled the investors to have an in-depth understanding of the Company's development strategy and business philosophy. The Company has also flexibly seized development opportunities in business and fully utilised the financing function of its listed company status to issue perpetual capital securities with an aggregate principal amount of HK$800 million and 770,000,000 new shares, and created favourable conditions for the expansion of the Company's shareholder base and for the enhancement of its capital base.

** English name is translated for identification purpose only*

OUTLOOK

Looking into 2019, the complicated and dynamic global economic environment and the uncertainties in the direction of the controlling policies to be released by the central government of the PRC will lead to increasingly fierce industry competition. Given the fact that additional supply of land resources in first-tier cities and second-tier core cities in the PRC is nearly saturated, together with the more stringent control over the real estate industry by the central government of the PRC, the Group will be faced with an even tougher regulatory environment and market environment.

In terms of the strategic development direction of the Group, the Group will further focus on the market in first-tier cities and the Guangdong-Hong Kong-Macao Bay Area while expanding its business into the satellite cities surrounding the first-tier cities and key second-tier cities in the PRC. In terms of land acquisition, while the Group will focus on urban renewal projects to support its medium-term to long-term development, it will rely on additional light-asset projects to meet its short-term needs. As the Group will acquire land resources mainly through urban renewal projects in the future, it will leverage on the competitive edge and strengths of the Company to boost its urban renewal operations. In addition, the Group will maintain its development at an appropriate scale and focus on delivering high-quality projects to raise its brand awareness and reputation.

APPRECIATION

On behalf of the Board, I would like to thank our management team and every staff member of the Group. The growth of the Group would not have been possible without their dedication and contribution. I would also like to express my appreciation to our investors, customers and business partners for their strong support and confidence in the Group. The management and staff of the Group will continue to dedicate their professional knowledge with excellent team spirit to overcome every difficulty ahead so as to achieve more outstanding results.

Chu Hing Tsung
Chairman
Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in property development, property investment, project management, and other property development related services in the PRC.

BUSINESS REVIEW

In FY2018, the impacts of the national policies in the PRC on the real estate industry in cities across various tiers and the enforcement thereof have become increasingly convergent. During FY2018, the restrictive policies on mortgage and property purchase, with the imposition of restrictive conditions that were becoming more and more sophisticated, have continued to be strictly implemented. Frequent reviews have been carried out jointly by the relevant authorities, in particular the reviews over limitations on property pricing and home purchase eligibility, which have impacted property developers' on-site sales management and contracting in cities across various tiers in the country. Purchasers in the real estate market in the PRC have also become more prudent. In addition, due to the shortage of cash in the capital markets in the PRC, the property developers have sped up their turnover and the recovery of their capital by cutting property prices directly.

The Group has actively expanded its land reserves through various channels, including participation in government public auctions, urban redevelopment projects, primary land development, co-operation with real estate project companies and acquisition of real estate project companies. During FY2018, the Group entered into an agreement to acquire 100% of the equity interest of Guangzhou Zhuguang Property at the consideration of RMB700 million (equivalent to approximately HK$830 million) (subject to adjustment). Guangzhou Zhuguang Property holds a development project known as "Hua Cheng Yujing Garden* (花城御景花園)" (formerly known as "Zhujiang Xincheng Yujing* (珠江新城御景)") located at Zhujiang Xincheng, Tianhe District, Guangzhou City, Guangdong Province, the PRC, with a gross floor area ("GFA") of approximately 109,113 sqm. Such acquisition was completed in July 2018, upon which Guangzhou Zhuguang Property became an indirect wholly-owned subsidiary of the Company.

** English name is translated for identification purpose only*

Management Discussion and Analysis

During the year under review, the Group completed the Silver Grant Acquisitions of approximately 29.56% interest of the issued share capital of Silver Grant, a company the shares of which are listed on the Main Board of the Stock Exchange with stock code: 0171, for the aggregate consideration of approximately HK$2,058,415,000.

Property Development and Sales

During FY2018, the Group continued its focus on the first-tier cities and key second-tier cities in the PRC with potential growth in demand, and achieved contracted sales of approximately HK$2,537,703,000 and contracted GFA sold of approximately 202,874 sqm, representing a decrease of approximately 10.7% and 28.5% respectively as compared with those for FY2017. The details of the contracted sales and contracted GFA sold achieved for FY2018 are set out below:

Projects	**Contracted sales** HK$'000	**Contracted GFA sold** (sqm)
Pearl Xincheng Yujing ("Xincheng Yujing")	563,089	51,138
Zhuguang Yujing Scenic Garden ("Yujing Scenic Garden")	991,227	80,829
Pearl Yunling Lake	102,569	7,055
Pearl Tianhu Yujing Garden ("Tianhu Yujing")	103,313	9,771
Pearl Yijing	226,087	14,166
Project Tian Ying	364,507	30,983
Hua Cheng Yujing Garden	52,313	669
	2,403,105	194,611
Car Parks	134,598	8,263
	2,537,703	202,874

It is expected that the following projects will be available for sale/pre-sale and/or leasing in 2019:

Projects	Available for sale/ pre-sale/ leasing period	GFA available for sale/lease (sqm)	Usage
Xincheng Yujing	1st quarter	93,929	Sale
Yujing Scenic Garden	1st quarter	111,827	Sale
Pearl Yunling Lake	1st quarter	64,576	Sale
Tianhu Yujing	1st quarter	31,002	Sale
Pearl Yijing	1st quarter	55,716	Sale
Project Tian Ying	1st quarter	28,765	Sale
Central Park	1st quarter	2,432	Sale
Nansha Scenic	1st quarter	12	Sale
Zhukong International	1st quarter	3,134	Leasing/Sale
Hua Cheng Yujing Garden	1st quarter	41,455	Leasing/Sale
Yujing Yayuan	1st quarter	37,942	Sale
Meizhou Chaotang Project	3rd quarter	13,282	Sale
		484,072	

As at 31 December 2018, the Group owned the following property development projects, the details of which are as follows:

Yujing Scenic Garden — 100% interest

"Yujing Scenic Garden" is located at Provincial Highway G105 ("Highway G105") line at Jiulibu District, Jiangpu Town, Conghua, Guangzhou, the PRC, which is well connected via a number of highways to and from Guangzhou. Yujing Scenic Garden is a 20-minute drive from downtown Conghua and a 10-minute drive from Wenquan Town, Conghua, with a site area of approximately 294,684 sqm, which is being developed into a commercial and residential complex, comprising residential buildings and a street-level commercial podium, service apartments and car parks. The total GFA available for sale is approximately 758,044 sqm, which comprises four phases of development. Phase IV with a total GFA available for sale of approximately 161,526 sqm is still under construction and will be delivered in 2019 and 2020. Apart from the properties developed for sale under Phases I to IV, Yujing Scenic Garden also comprises a two-storey commercial building with a total GFA of approximately 3,307 sqm, which is held by the Group for investment purposes.

The street-level commercial podium with a total GFA of approximately 2,416 sqm was leased out during FY2018. During FY2018, contracted sales of approximately HK$991,227,000 with GFA of approximately 80,829 sqm were recorded with respect to Yujing Scenic Garden.

MANAGEMENT DISCUSSION AND ANALYSIS

Tianhu Yujing — 100% interest

"Tianhu Yujing" is located at Shui Di Village, Jiulibu District, Wenquan Town, Conghua, Guangzhou, the PRC, with a site area of approximately 55,031 sqm. The land of this project is located adjacent to Yujing Scenic Garden, and the Group has developed this land together with Yujing Scenic Garden to expand the Group's development and presence in Conghua. The project is developed into 5 blocks of 32-storey modern residential buildings and a street-level commercial podium with total GFA available for sale of approximately 186,895 sqm. The development is divided into two phases. The total GFA available for sale of Phase I and Phase II is approximately 97,183 sqm and 89,712 sqm respectively.

The aggregate GFA of Phase I delivered was approximately 90,204 sqm, of which approximately 5,270 sqm was delivered during FY2018. The aggregate GFA of Phase II delivered was approximately 40,521 sqm, of which approximately 6,441 sqm was also delivered during FY2018. The remaining GFA available for sale of Phase I and Phase II is expected to be delivered in 2019. During FY2018, contracted sales of approximately HK$103,313,000 with GFA of approximately 9,771 sqm were recorded with respect to Tianhu Yujing.

Pearl Yunling Lake — 100% interest

"Pearl Yunling Lake" is located at Provincial Highway S355 line at Jiekou Street, Conghua, Guangzhou, the PRC, which is adjacent to the Fengyunling Forest Park, and is the main transportation link between Conghua and downtown Guangzhou. The project site area is approximately 200,083 sqm and the total GFA is expected to be approximately 125,908 sqm. The development is divided into two phases, with Phase I comprising 57 villas and 5 apartment buildings, with an aggregate GFA of approximately 41,913 sqm, and Phase II comprising 44 villas, 3 apartment buildings and a hotel, with an aggregate GFA of approximately 83,995 sqm. Phase I with a total GFA available for sale of approximately 40,886 sqm and Phase II with a total GFA available for sale of approximately 57,625 sqm were launched for sale in the first and third quarters of FY2017 respectively, whilst the hotel will be retained as a long-term asset of the Group.

The aggregate GFA of Phase I delivered was approximately 18,083 sqm, of which approximately 4,648 sqm was delivered during FY2018. The aggregate GFA of Phase II delivered during FY2018 was approximately 5,085 sqm. The remaining GFA available for sale of Phase I and Phase II is expected to be delivered in 2019. During FY2018, contracted sales of approximately HK$102,569,000 with GFA of approximately 7,055 sqm were recorded with respect to Pearl Yunling Lake.

Xincheng Yujing — 100% interest

"Xincheng Yujing" was acquired by the Group in September 2016. It is located at Zhong Su Shang Wei* (種玊上圍), Sunshine Village* (陽光村), Tang Nan Town* (湯南鎮), Fengshun County* (豐順縣), Meizhou City, Guangdong Province, the PRC (next to Line G235), a county famous for its hot spring resources which is a major tourism attraction. The project site area is approximately 280,836 sqm and a total GFA of approximately 385,416 sqm is expected to be developed. The project is being developed into various types of villas, high-rise apartment buildings and an ancillary commercial development. The development of the project is divided into three phases. Phase I with a total GFA available for sale of approximately 55,970 sqm commenced pre-sale during FY2017 and was delivered in FY2018. Phase II and Phase III are currently under development and are expected to be completed in 2019 to 2020 and Phase II commenced pre-sale during FY2017. The ancillary commercial building plus a basement with a total GFA of approximately 7,165 sqm were leased out during FY2018. During FY2018, contracted sales of approximately HK$563,089,000 with GFA of approximately 51,138 sqm were recorded with respect to Xincheng Yujing.

** English name is translated for identification purpose only*

Pearl Yijing — 100% interest

"Pearl Yijing" is located at No.168 Xinkai Street, Xianghe County, Hebei Province, the PRC, with a site area of approximately 63,044 sqm and a total GFA available for sale of approximately 167,808 sqm. The project was developed into two phases with several residential buildings and street-level commercial areas. During FY2018, a total GFA available for sale of approximately 260 sqm under Phase I was delivered, and the remaining part of Phase I with a total GFA available for sale of approximately 9,147 sqm is expected to be completed and delivered in 2019. A total GFA available for sale of approximately 22,063 sqm under Phase II of the project was delivered during FY2018, while the remaining part of Phase II is currently under development and is expected to be completed in 2019. During FY2018, contracted sales of approximately HK$226,087,000 with GFA of approximately 14,166 sqm were recorded with respect to Pearl Yijing.

Project Tian Ying — 100% interest

"Project Tian Ying" is located in Jiang Pu Street, Conghua, Guangzhou, the PRC, and is next to Highway G105, which is only a 10-minute drive and a one-hour drive from Conghua central business district and Guangzhou City, respectively. The site area of the project is approximately 22,742 sqm and the GFA available for development is approximately 74,213 sqm. The project will be developed into a stylish low-density residential complex with a commercial podium and certain public facilities. The project is currently under development and is expected to be completed in 2019. During FY2018, contracted sales of approximately HK$364,507,000 with GFA of approximately 30,983 sqm were recorded with respect to Project Tian Ying.

Zhukong International — 80% interest

"Zhukong International" is located at Lot A2-1, Zhujiang New Town, Tianhe District, Guangzhou, the PRC, at the junction of Guangzhou Avenue* (廣州大道) and Huang Pu Da Dao* (黃埔大道), which is a 35-storey high-rise commercial complex, including a 6-storey commercial podium, a 29-storey Grade A office building and a 3-storey underground car park. The complex was completed in 2015 with a site area of approximately 10,449 sqm and a total GFA (including carpark areas) available for sale and leasing of approximately 109,738 sqm. The aggregate GFA of the office building and carparks sold and delivered were approximately 41,412 sqm and 2,537 sqm respectively from 2014 to 2018, and GFA of approximately 21,871 sqm of this property is still available for sale or leasing. The Group has designated GFA of approximately 43,918 sqm of this property as investment properties held for long-term investment purpose.

** English name is translated for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

Central Park — 100% interest

"Central Park" is located at Lot H3-3, Zhujiang New Town, Tianhe District, Guangzhou, the PRC with a site area of approximately 3,430 sqm, and a total GFA available for sale of approximately 28,908 sqm thereof has been developed into a 30-storey building, including service apartments, a street-level commercial podium and a 4-storey underground car park. The aggregate GFA available for sale of the service apartments delivered was approximately 23,631 sqm, of which approximately 778 sqm was delivered during FY2018. The Group has designated GFA of approximately 2,746 sqm of this property as investment properties held for long-term investment purpose.

Nansha Scenic — 100% interest

"Nansha Scenic" is located at Jinzhou Main Street, Nansha District, Guangzhou, the PRC, which is the central business district in Nansha. As at 31 December 2018, the project was completed and only certain car parks still remained available for sale. During FY2017, the total GFA of car parks delivered and sold were approximately 421 sqm.

Hua Cheng Yujing Garden – 100% interest

"Hua Cheng Yujing Garden" was acquired by the Group in July 2018. It is located at Zhujiang Xincheng, Tianhe District, Guangzhou City, Guangdong Province, the PRC with a site area of approximately 60,237 sqm, and the total GFA available for development that belongs to the Group is approximately 109,113 sqm. Out of the GFA of approximately 109,113 sqm, a GFA of approximately 48,044 sqm is attributable to a commercial and residential complex which comprises carparks, residential buildings, shopping malls and office premises, and a GFA of approximately 61,069 sqm is attributable to a commercial complex which comprises shopping malls and office premises. During FY2018, contracted sales of approximately HK$52,313,000 with GFA of approximately 669 sqm were recorded with respect to Hua Cheng Yujing Garden.

Meizhou Chaotang Project – 100% interest

"Meizhou Chaotang Project" is located at Chaotang Village, Chengdong Town, Meixian District, Meizhou City, the PRC. The site area and the GFA available for development of Phase I of the project are approximately 46,793 sqm and approximately 97,617 sqm, respectively. Phase I of the project will be developed into a number of villas of different types in addition to a hotel. Pre-sale of the villas is expected to commence in the third quarter of 2019.

Yujing Yayuan – 50% interest

"Yujing Yayuan" is located at Guoji, Fuyong, Nanqu, Zhongshan City, the PRC. The site area and the GFA available for development of this project are approximately 15,745 sqm and approximately 50,507 sqm, respectively. This project which will be developed into five blocks of modern residential buildings, a street-level commercial podium and an underground car park, has commenced pre-sale in March 2019.

Land Bank

It is the Group's strategy to maintain a sufficient land bank and design accurate urban layout to support the Group's own development pipeline for at least the next three to five years. The Group has actively expanded its land reserves through various channels, including participation in government public auctions, urban redevelopment projects and acquisition of other property development projects. During FY2018, the Group has completed the acquisition of 100% equity interest of Guangzhou Zhuguang Property, thereby indirectly owning interests in Hua Cheng Yujing Garden, a development project located at Zhujiang Xincheng, Tianhe District, Guangzhou City, Guangdong Province, the PRC, with a GFA of approximately 109,113 sqm available for development that belongs to the Group. Further details of this acquisition are set out below in paragraph (c) in the sub-section headed "MATERIAL ACQUISITIONS AND DISPOSALS" in the section headed "MANAGEMENT DISCUSSION AND ANALYSIS" in this annual report. The Group will continue to explore new opportunities in cities in the PRC in which the Group has already invested, as well as new cities in the PRC with growth potential and the best investment value.

Property Investments

As at 31 December 2018, the Group owned (1) certain floors of Royal Mediterranean Hotel ("RM Hotel") located at 518 Tianhe Road, Tianhe District, Guangzhou, the PRC with GFA of approximately 18,184 sqm (31 December 2017: 18,184 sqm); (2) "Zhukong International" with GFA of approximately 43,918 sqm (31 December 2017: 43,918 sqm); (3) certain floors of the commercial complex in Hua Cheng Yujing Garden with GFA of approximately 30,604 sqm (31 December 2017: Nil); and (4) certain commercial properties with GFA of approximately 14,310 sqm (31 December 2017: 6,029 sqm) as investment properties. During FY2018, RM Hotel, Zhukong International and the commercial properties were partly leased out with total rental income of approximately HK$164,690,000 generated, representing an increase of approximately 17.6% as compared to that of approximately HK$139,992,000 for FY2017. The existing investment properties held by the Group are intended to be held for medium-term to long-term investment purposes. The Group will continue to seek high quality properties with potential appreciation in value for investment purposes and build up a portfolio that will generate steady cash flows to the Group in the future.

Project Management Services

During FY2018, the Group provided funding and project management services to its customers. The Group is entitled to project management services income based on the terms of the entrusted construction and management service agreements entered into with these customers and such income enables the Group to broaden its income source. The Group recorded project management services segment results of approximately HK$471,715,000 for FY2018, comparing to that of approximately HK$364,433,000 for FY2017. The Group will continue to utilise its expertise in project management in order to maintain a steady income stream in the future.

MATERIAL ACQUISITIONS AND DISPOSALS

During FY2018, the Group entered into the following contracts:

(a) On 29 March 2017, Xianghe County Yijing Property Development Company Limited* (香河縣逸景房地產開發有限公司), an indirect wholly-owned subsidiary of the Company, as purchaser ("Xianghe Purchaser"), Tong Dexin* (佟德新) and Tong Demin* (佟德珉), as vendors (collectively, the "Xianghe Vendors"), and Xianghe Jingang Real Estate Development Company Limited* (香河金港房地產開發有限公司), as target company ("Xianghe Target"), entered into an equity transfer agreement ("Equity Transfer Agreement"), which was amended and supplemented by (i) the supplemental agreement dated 29 December 2017 entered into among the Xianghe Purchaser, the Xianghe Vendors and the Xianghe Target; and (ii) the further supplemental agreement dated 9 March 2018 entered into among the Xianghe Purchaser, Langfang Xianghe Haojie Trading Company Limited* (廊坊香河豪捷貿易有限公司) ("Langfang Xianghe"), an indirect wholly-owned subsidiary of the Company, the Xianghe Vendors, the Xianghe Target and Guangdong Zhuguang Group Company Limited* (廣東珠光集團有限公司) ("Guangdong Zhuguang Group") (collectively, the "Further Supplemental Agreements"), in relation to the purchase and sale of the entire equity interest in the Xianghe Target at the aggregate consideration of RMB1,700,000,000 (equivalent to approximately HK$2,105,960,000) ("Xianghe Acquisition").

On 29 June 2018, a transfer agreement was entered into between the Xianghe Purchaser, Langfang Xianghe, the Xianghe Vendors, the Xianghe Target, Guangdong Zhuguang Group and Xianghe Runfa Property Development Company Limited* (香河潤發房地產開發有限公司) ("Xianghe Runfa"), to agree, among other things that, (i) the Xianghe Purchaser and Langfang Xianghe shall transfer all their rights and obligations under the Equity Transfer Agreement and the Further Supplemental Agreements (collectively, the "Original Agreements") to Xianghe Runfa for the consideration of RMB400,000,000 (being an amount equivalent to the deposit paid by the Xianghe Purchaser to the Xianghe Vendors pursuant to the Equity Transfer Agreement) ("Xianghe Transfer"); and (ii) following the Xianghe Transfer, the Xianghe Purchaser and Langfang Xianghe shall cease to have any rights and shall be discharged from all of their obligations and liabilities under the Original Agreements.

Further details of the Xianghe Acquisition and the Xianghe Transfer are set out in the announcements of the Company dated 29 March 2017, 3 April 2017, 24 April 2017, 11 May 2017, 26 June 2017, 29 August 2017, 29 December 2017, 31 January 2018, 12 March 2018 and 29 June 2018.

(b) On 23 June 2017, South Trend Holdings Limited (南興控股有限公司), a wholly-owned subsidiary of the Company, as purchaser ("South Trend"), Quan Xing Holdings Limited (荃興控股有限公司), as vendor ("Quan Xing"), and Cheung Fong Wing, as guarantor ("All Flourish Guarantor"), entered into a sale and purchase agreement ("All Flourish SPA"), which was amended and supplemented by the supplemental agreements (collectively, the "All Flourish Supplemental Agreements") dated 28 March 2018, 2 August 2018 and 28 December 2018 entered into among South Trend, Quan Xing and the All Flourish Guarantor, in relation to the acquisition of the entire issued share capital of All Flourish Investments Limited (通興投資有限公司) ("All Flourish") at the consideration of RMB3.5 billion (equivalent to approximately HK$3.95 billion) (subject to adjustment) ("All Flourish Acquisition"). A special general meeting will be convened and held for the Shareholders to consider and, if thought fit, approve the All Flourish SPA (as amended and supplemented by the All Flourish Supplemental Agreements) and the transactions contemplated thereunder. Upon completion of the All Flourish Acquisition which is subject to the satisfaction of the conditions precedent (including the approval of the Shareholders having been obtained), All Flourish will become an indirect wholly-owned subsidiary of the Company.

** English name is translated for identification purpose only*

Further details of the All Flourish Acquisition are set out in the announcements of the Company dated 23 June 2017, 27 October 2017, 14 February 2018, 28 March 2018, 29 June 2018, 2 August 2018, 31 October 2018 and 28 December 2018.

(c) On 24 June 2018, Guangzhou Yude Investment Company Limited* (廣州御德投資有限公司) ("Guangzhou Yude"), a wholly-owned subsidiary of the Company, as purchaser, and Guangdong Zhuguang Group, as vendor, entered into an agreement ("GD Zhuguang SP Agreement") in relation to the acquisition ("GD Zhuguang Acquisition") of 100% of the equity interest ("GD Sale Interest") of Guangzhou Zhuguang Property. Pursuant to the GD Zhuguang SP Agreement, Guangzhou Yude has conditionally agreed to purchase, and Guangdong Zhuguang Group has conditionally agreed to sell, the GD Sale Interest at the consideration of RMB700 million (equivalent to approximately HK$830 million) (subject to adjustment).

Guangzhou Zhuguang Property holds 100% of the equity interests of Guangzhou Shunji Industry Company Limited* (廣州舜吉實業有限公司) ("Guangzhou Shunji"), and Guangzhou Shunji holds interests in a development project known as "Hua Cheng Yujing Garden* (花城御景花園)" (formerly known as "Zhujiang Xincheng Yujing* (珠江新城御景)") ("Development"), which is located at Zhujiang Xincheng, Tianhe District, Guangzhou City, Guangdong Province, the PRC.

The Development which comprises a composite development (residential/commercial) of 13 blocks of residential and commercial buildings, with ancillary facilities and car parks thereon, constructed or to be constructed on three parcels of land with a total site area of approximately 60,237 sqm and GFA of approximately 433,015 sqm, is scheduled to be completed in about December 2020. Out of the GFA of approximately 109,113 sqm of the Development that will belong to Guangzhou Shunji upon completion of the GD Zhuguang Acquisition, GFA of approximately 48,044 sqm is attributable to a commercial and residential complex which comprises carparks, residential buildings, shopping malls and office premises developed on one of the three pieces of land of the Development, and GFA of approximately 61,069 sqm is attributable to a commercial complex which comprises shopping malls and office premises to be developed on another piece of land of the Development.

The GD Zhuguang Acquisition was completed in July 2018, upon which Guangzhou Zhuguang Property became an indirect wholly-owned subsidiary of the Company. For details of the GD Zhuguang Acquisition, please refer to the Company's announcement dated 24 June 2018.

(d) On 29 June 2018, the Company, as purchaser, and CGNPC International Limited (中廣核國際有限公司), as vendor ("Vendor A"), entered into a sale and purchase agreement ("SPA A") (as amended and supplemented by the supplemental agreement dated 26 September 2018 entered into between the Company and Vendor A), pursuant to which the Company (or any of its subsidiary) conditionally agreed to acquire, and Vendor A conditionally agreed to sell, the legal and beneficial interests in 364,140,000 ordinary shares in the issued share capital of Silver Grant ("Silver Grant Shares"), representing approximately 15.80% of the total issued share capital of Silver Grant as at 29 June 2018, for a consideration of HK$1,121,551,200 ("SG Acquisition A").

** English name is translated for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

On 29 June 2018, the Company, as purchaser, Silver Grant Group Limited (銀建集團有限公司), as vendor ("Vendor B"), and Gao Jian Min* (高建民), as guarantor for Vendor B ("Vendor B Guarantor") entered into a sale and purchase agreement ("SPA B") (as amended and supplemented by the supplemental agreement dated 26 September 2018 entered into between the Company, Vendor B and Vendor B Guarantor), pursuant to which the Company (or any of its subsidiary) conditionally agreed to acquire, and Vendor B conditionally agreed to sell, the legal and beneficial interests in 291,220,022 Silver Grant Shares, representing approximately 12.64% of the total issued share capital of Silver Grant as at 29 June 2018, for a consideration of HK$896,957,668 ("SG Acquisition B", together with SG Acquisition A, collectively the "SG Acquisitions").

Silver Grant is a company incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange with stock code: 0171. Silver Grant and its subsidiaries are principally engaged in investment holding, property leasing and production and trading of petrochemical products and provision of sub-contracting service.

The SG Acquisitions were completed on 31 October 2018. After completion of the SG Acquisitions and the acquisition of 25,880,000 Silver Grant Shares by the Company subsequent to its entering into of SPA A and SPA B, the Company became the single largest shareholder of Silver Grant holding interest in 681,240,022 Silver Grant Shares, representing approximately 29.56% of the total issued share capital of Silver Grant. Details of the SG Acquisitions are set out in the announcements of the Company dated 29 June 2018, 31 July 2018, 26 September 2018, 31 October 2018 and the circular of the Company dated 19 September 2018.

(e) On 25 December 2018, Guangzhou Zhuguang Property, a wholly-owned subsidiary of the Company, as purchaser, and 廣州秀苑房地產有限公司 (Guangzhou Xiu Yuan Property Company Limited*), as vendor ("Xiu Yuan"), entered into a sale and purchase agreement ("Yu Ying SPA") in relation to the acquisition ("Yu Ying Acquisition") of the registered capital of RMB48 million ("Yu Ying Sale Interest") of 廣州御盈房地產有限公司 (Guangzhou Yu Ying Property Company Limited*) ("Yu Ying"). Pursuant to the Yu Ying SPA, Guangzhou Zhuguang Property agreed to purchase, and Xiu Yuan agreed to sell, the Yu Ying Sale Interest, which represents 30% of the equity interest of Yu Ying at the consideration of RMB240 million (equivalent to approximately HK$270 million).

Immediately before the completion of the Yu Ying Acquisition, Yu Ying was a non-wholly owned subsidiary of the Company of which 70% of its equity interest was owned by the Group and the remaining 30% of its equity interest was owned by Xiu Yuan. The Yu Ying Acquisition was completed on 26 December 2018, upon which Yu Ying became an indirect wholly-owned subsidiary of the Company. For details of the Yu Ying Acquisition, please refer to the Company's announcement dated 27 December 2018.

** English name is translated for identification purpose only*

OUTLOOK

Looking ahead in 2019, the global market will enter into an interest rate hiking cycle and investors will begin to reallocate their assets and turn to conservative investments in order to minimise their risk. As a result, the PRC will be facing an increasingly hostile international environment and the immediate economic threat posed by the China-United States trade war has caused negative impact on the industries of both nations and global trade. The uncertainty in the direction of the control policies to be released by the central government of China will lead to increasingly fierce industry competition. With the real estate industry being one of the most important sectors of the Chinese economy, it is expected that the PRC government will continue to implement its control policies steadily in relation to the property market and will build up a long-term operating mechanism for the real estate industry.

In view of the above external factors affecting the real estate industry, the Group will continue to actively participate in urban renewal projects and construction projects in featured small towns, acquire qualified land reserves in regions of high value, further focus on business in first-tier cities and the Guangdong-Hong Kong-Macao Greater Bay Area and expand its businesses in satellite cities of first-tier cities and key second-tier cities in the PRC. In 2019, the Group's inventory for sale will still be its completed projects in Guangzhou, and it will continue to step up its efforts in marketing its projects in the Conghua area in Guangzhou. As at the date of this annual report, the Group's saleable inventory in the Conghua area is relatively abundant. As a result, Conghua will become a focused sales area of the Group in 2019, where the Group will pay close attention to the sales in this market.

In terms of land acquisition, while the Group will focus on urban renewal projects to support its medium-term to long-term development, it will rely on additional light-asset projects to meet its short-term needs. As the Group will acquire land resources mainly through urban renewal projects in the future, it will leverage on the competitive edge and strengths of the Company to boost its urban renewal operations. In addition, the Group will maintain its development at an appropriate scale and focus on delivering high-quality projects to raise its brand awareness and reputation.

FINANCIAL REVIEW

Revenue

During FY2018, the Group's revenue included revenue from property sales, rental income and project management services income. The total revenue of the Group for FY2018 was approximately HK$2,704,796,000 (FY2017: HK$2,766,510,000), which represented a slight decrease of 2.2% as compared to that for FY2017.

Revenue from sale of properties for FY2018 amounted to approximately HK$2,527,991,000 (FY2017: HK$2,262,085,000). The increase was mainly due to the increase in the average selling price of the properties delivered during FY2018 as compared to that of the properties delivered during FY2017.

The Group recorded an increase of 17.6% in rental income for FY2018, as compared to that for FY2017. The rental income increased from approximately HK$139,992,000 for FY2017 to approximately HK$164,690,000 for FY2018, mainly due to the additional GFA of investment properties leased out by the Group during FY2018.

The income from project management services contributed approximately HK$12,115,000 (FY2017: HK$364,433,000) to the total revenue of the Group for FY2018. As a result of the change in accounting policy and the adoption of HKFRS 9 in FY2018, the trade and other receivables in connection with certain project management services agreements were reclassified as financial assets at fair value through profit or loss. The income of the relevant project management services agreements was accounted for as change in fair value of financial assets at fair value through profit or loss in FY2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and margin

For FY2018, the Group recorded a gross profit of approximately HK$1,087,787,000 (FY2017: HK$1,018,289,000). The Group's gross profit on the property development segment amounted to approximately HK$910,982,000 (FY2017: HK$515,100,000), representing a 76.9% increase as compared with that of FY2017. The increase was mainly due to both the GFA and the average selling price of the properties delivered during FY2018 being higher than those of the properties delivered during FY2017.

Fair value gain on investment properties, net

For FY2018, the fair value gain on investment properties, net, recorded by the Group amounted to approximately HK$279,009,000 (FY2017: HK$43,100,000), representing an increase of 547.4% as compared to that of FY2017. The fair value gain on investment properties, net, recorded during FY2018 was mainly attributable to the continuous rise in the market value of the Group's investment properties in RM Hotel, Zhukong International and the commercial complex located in Hua Cheng Yujing Garden.

Other income and gains

Other income and gains of the Group increased from approximately HK$397,544,000 for FY2017 to approximately HK$468,528,000 for FY2018. The increase was primarily due to the increase in interest income earned during FY2018 as compared to that in FY2017.

Administrative expenses and selling and marketing costs

Administrative expenses and selling and marketing costs of the Group increased from approximately HK$218,620,000 for FY2017 to approximately HK$338,116,000 for FY2018. The increase was primarily due to the general increase in administrative expenses during FY2018, including (i) the staff costs due to the increase in the number of employees; and (ii) the provision of professional fees payable for due diligence and refinancing arrangements and settlement in relation to potential projects.

Other expenses

Other expenses of the Group increased from approximately HK$32,690,000 for FY2017 to approximately HK$172,087,000 for FY2018. The increase was mainly attributable to the foreign exchange loss as a result of the depreciation of the Renminbi ("RMB") against the Hong Kong dollar ("HK$") during FY2018 and the impairment loss of other receivables and deposits.

Change in fair value of financial assets at fair value through profit or loss

Due to the change in accounting policy and the adoption of HKFRS 9 by the Group in FY2018, trade and other receivables in connection with certain project management service agreements under which the Group agreed to provide funding and management services in relation to property project development, were reclassified to financial assets at fair value through profit or loss, resulting in the income of the relevant project management services agreement of approximately HK$459,600,000 being recognised as change in fair value of financial assets at fair value through profit or loss in FY2018 (FY2017: Nil).

Share of loss of an associate

Share of loss of an associate was approximately HK$12,760,000 for FY2018 (FY2017: Nil), which represented the Group's share of the loss from its associate, Silver Grant, for the period from 1 November 2018 (i.e. the date on which Silver Grant became an associate of the Group) to 31 December 2018.

Finance costs

Finance costs for FY2018 were approximately HK$1,248,810,000 (FY2017: HK$939,346,000), which were made up of interest expenses incurred during FY2018 after deduction of the interest expenses capitalised to development costs. The increase in finance costs was mainly due to the issue of the senior secured guaranteed notes in the aggregate principal amount of US$50,000,000 by the Company in the last quarter of FY2017 and the increase in bank and other borrowings of the Group during FY2018.

Income tax expense

Income tax expenses comprised corporate income tax ("CIT") and land appreciation tax ("LAT") in the PRC and deferred tax. CIT of approximately HK$214,696,000 (FY2017: HK$222,155,000), LAT of approximately HK$105,680,000 (FY2017: HK$60,961,000) and deferred tax of approximately HK$124,923,000 (FY2017: deferred tax credit of HK$45,403,000) accounted for the Group's total income tax expense of approximately HK$445,299,000 for FY2018 (FY2017: HK$237,713,000). The increase in total income tax expense for FY2018 was mainly due to the net effect of (i) the increase in tax-deductible expenses incurred during FY2018, as compared to those incurred in FY2017; (ii) the increase in the provision of deferred tax made for FY2018, as compared to that for FY2017; and (iii) the decrease in income generated during FY2018 which was not subject to income tax, as compared to that generated in FY2017.

Profit for the year

The Group's profit for the year was approximately HK$77,852,000 for FY2018 (FY2017: HK$145,438,000), which represented a decrease of approximately 46.5% as compared to that for FY2017. The decrease in profit was mainly attributable to the combined effects of (i) the share of loss of an associate of approximately HK$12,760,000 recognised in FY2018, which was absent in FY2017; (ii) the increase in the other expenses recognised in FY2018 to approximately HK$172,087,000 (FY2017: HK$32,690,000); (iii) the increase in finance costs incurred by the Group during FY2018 to approximately HK$1,248,810,000 (FY2017: HK$939,346,000); and (iv) the increase in the income tax expense incurred by the Group during FY2018 to approximately HK$445,299,000 (FY2017: HK$237,713,000), which were partially offset by (1) the increase in the fair value gain on investment properties, net, to approximately HK$279,009,000 recognised in FY2018 (FY2017: HK$43,100,000); and (2) the recognition of the change in fair value of financial assets at fair value through profit or loss in FY2018 of approximately HK$459,600,000, which was absent in FY2017.

Treasury and funding policies

The Group has adopted a prudent approach with respect to its treasury and funding policies. The Group's financial and fundraising activities are subject to effective centralised management and supervision, with an emphasis on risk management and transactions that are directly related to the business of the Group.

Cash position

As at 31 December 2018, the Group's bank and cash balances (including restricted cash and term deposits with initial terms of over three months) amounted to approximately HK$6,993,085,000 (31 December 2017: HK$4,575,317,000). The cash and cash equivalents of the Group were mainly denominated in RMB, United States dollar ("US$") and HK$.

Borrowings, charges on group assets and gearing ratio

The Group's bank and other borrowings comprised the following:

	31 December 2018 HK$'000	31 December 2017 HK$'000
Bank loans — secured	**5,661,378**	1,261,612
Senior notes — secured	**3,551,193**	3,477,499
Other borrowings — secured	**9,712,584**	6,423,192
Other borrowings — unsecured	**220,000**	—
	19,145,155	11,162,303

(a) As at 31 December 2018, the Group's total borrowings were made up of financing from (i) bank loans; (ii) senior notes; and (iii) other borrowings, including trust loans, a margin loan and a term loan facility. The senior notes and other borrowings carried fixed interest rates ranging from 7.51% to 12.4% (31 December 2017: 8% to 11%). Approximately 89.6% of the bank loans carried fixed interest rates ranging from 5.27% to 11.0% (31 December 2017: 6.18% to 9.5%) while the remaining 10.4% of the bank loans carried floating interest rates.

(b) The gearing ratio of the Group is measured by the net debt (total interest-bearing borrowings net of cash and cash equivalents, term deposits with initial terms of over three months and restricted cash) over the total capital (total equity plus net debt) of the Group. As at 31 December 2018, the gearing ratio of the Group was 64% (31 December 2017: 56%).

(c) As at 31 December 2018, the Group had outstanding secured bank loans of approximately HK$5,661.4 million, which were secured by the following: (i) the Group's investment properties; and (ii) the Group's properties under development and completed properties held for sale. The secured bank loans comprised (1) a bank loan in the principal amount of US$33 million due in January 2019; (2) a revolving bank loan in the principal amount of HK$336.5 million with the final maturity date falling due in December 2019; (3) a bank loan in the principal amount of RMB120 million repayable by instalments within 3 years with the last instalment due in July 2020; (4) a bank loan in the principal amount of RMB127 million repayable by instalments within 4 years with the last instalment due in December 2021; (5) a bank loan in the principal amount of RMB750 million due in July 2020; (6) a bank loan in the principal amount of RMB833.5 million due in August 2019; (7) a bank loan in the principal amount of RMB750 million due in September 2019; (8) a bank loan in the principal amount of RMB340 million repayable by instalments within 25 months with the last instalment due in September 2019; (9) a bank loan in the principal amount of RMB800 million repayable by instalments within 2 years with the last instalment due in March 2020; (10) a bank loan in the principal amount of RMB500 million repayable by instalments within 2 years with the last instalment due in October 2021; and (11) a bank loan in the principal amount of RMB300 million repayable by instalments within 3 years with the last instalment due in November 2021.

(d) As at 31 December 2018, the Group had outstanding senior secured guaranteed notes issued in 2016 ("2016 Senior Notes") in the aggregate principal amount of US$410 million (equivalent to approximately HK$3,171 million), consisting of principal amounts of US$190,000,000 (equivalent to approximately HK$1,482,000,000) and US$220,000,000 (equivalent to approximately HK$1,716,000,000) due on 3 August 2019 and 22 September 2019, respectively, which are secured and guaranteed by (i) the 3,021,112,000 Shares owned by Rong De Investments Limited (融德投資有限公司) ("Rong De") ; (ii) the 100% equity interest of the Company's subsidiaries, namely, Ai De Investments Ltd. (靄德投資有限公司) ("Ai De"), Capital Fame Investments Limited (嘉鋒投資有限公司) ("Capital Fame"), Cheng Chang Holdings Ltd. (誠昌控股有限公司) ("Cheng Chang"), Diamond Crown Limited (毅冠有限公司) ("Diamond Crown"), East Orient Investment Limited (達東投資有限公司) ("East Orient"), Ever Crown Corporation Limited (冠恒興業有限公司) ("Ever Crown"), Fully Wise Investment Limited (惠豐投資有限公司) ("Fully Wise"), Gains Wide Holdings Limited (利博控股有限公司) ("Gains Wide"), Polyhero International Limited (寶豪國際有限公司) ("Polyhero"), Profaith International Holdings Limited (盈信國際控股有限公司) ("Profaith"), Speedy Full Limited (速溢有限公司) ("Speedy Full"), Talent Wide Holdings Limited (智博控股有限公司) ("Talent Wide"), Top Asset Development Limited (通利發展有限公司) ("Top Asset"), Top Perfect Development Limited (泰恒發展有限公司) ("Top Perfect") and Vanco Investment Limited (雅豪投資有限公司) ("Vanco"); (iii) the corporate guarantees executed by Rong De, South Trend, Zhuguang Group Limited (珠光集團有限公司) ("ZG Group"), Ai De, Capital Fame, Cheng Chang, Diamond Crown, East Orient, Ever Crown, Fully Wise, Gains Wide, Polyhero, Profaith, Speedy Full, Talent Wide, Top Asset, Top Perfect and Vanco; and (iv) the personal guarantees executed by the executive Directors, Mr. Liao Tengjia, Mr. Chu Hing Tsung and Mr. Chu Muk Chi.

(e) As at 31 December 2018, the Group had outstanding senior secured guaranteed notes issued in 2017 ("2017 Senior Notes") in the principal amount of US$50 million (equivalent to approximately HK$380.2 million) due on 12 December 2019. The first tranche of the 2017 Senior Notes in the principal amount of US$50 million is secured and guaranteed by (i) 100 million Shares owned by Rong De; (ii) the 100% equity interest of the Company's subsidiaries, namely, Victory Global Investments Limited (榮浩投資有限公司) ("Victory Global"), China Honest International Investments Limited (創豪國際投資有限公司) ("China Honest") and Graceful Link Limited (愉興有限公司); (iii) the corporate guarantees executed by Rong De, South Trend, Victory Global and China Honest; and (iv) the personal guarantees executed by the executive Directors, Mr. Liao Tengjia, Mr. Chu Hing Tsung and Mr. Chu Muk Chi. As at 31 December 2018 and up to the date of this annual report, the second tranche of the 2017 Senior Notes had not been issued.

MANAGEMENT DISCUSSION AND ANALYSIS

(f) As at 31 December 2018, the Group had outstanding secured other borrowings of approximately HK$9,712.6 million, which were secured and guaranteed by (i) the Group's properties for sale under development and completed properties held for sale; (ii) the Group's land use rights classified under prepaid land lease payments; (iii) the Group's investment properties; (iv) the entire equity interest of the Company's subsidiaries, 廣州東港合眾房地產有限公司 (Guangzhou Dong Gang He Zhong Property Company Limited*), 廣州市潤啟房地產有限公司 (Guangzhou City Runqi Property Company Limited*), Yu Ying; (v) the corporate guarantees executed by the Company and Guangdong Zhuguang Group; (vi) the guarantees executed by the executive Directors, Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi; (vii) 320,000,000 Shares owned by Rong De; and (viii) 681,240,000 Silver Grant Shares owned by the Company. The secured other borrowings comprised (1) a loan in the principal amount of RMB2,550 million repayable by instalments within 5 years with the last instalment due in December 2022; (2) a loan in the principal amount of RMB551 million due in November 2019; (3) a loan in the principal amount of RMB636 million due in April 2019; (4) a loan in the principal amount of RMB1,104.3 million repayable by instalments within 3 years with the last instalment due in July 2020; (5) a loan in the principal amount of RMB629.6 million repayable by instalments within 2 years with the last instalment due in January 2020; (6) a loan in the principal amount of RMB1,200 million due in July 2021; (7) a loan in the principal amount of RMB280 million repayable by instalments within 3 years with the last instalment due in January 2021; (8) a loan in the principal amount of RMB1,200 million due in July 2021; and (9) loans in the principal amounts of HK$550 million and HK$500 million due in October 2019.

(g) As at 31 December 2018, the Group had outstanding unsecured other borrowings of HK$220 million. The unsecured other borrowings comprised (1) a loan in the principal amount of HK$20 million due in March 2019; and (2) a loan in the principal amount of HK$200 million due in November 2019.

Issue of perpetual capital securities

On 29 October 2018, the Company issued perpetual capital securities ("Perpetual Securities") in the aggregate principal of HK$800,000,000 at a distribution rate of 6% per annum to Rong De (the controlling shareholder of the Company). The Perpetual Securities have no fixed redemption date and are redeemable at the option of the Company at any time and from time to time, whether in whole or in part, at any time after its issue. While distribution is payable by the Company every six months, the Company may, at its sole discretion, elect to defer, in whole or in part, any distribution (including any arrears of distribution) to the next distribution payment date. The proceeds from the issue of the Perpetual Securities were used for financing the corporate funding requirement of the Group.

Issue of subscription shares

On 26 November 2018, the Company entered into a subscription agreement ("Subscription Agreement") with Rong De (the controlling shareholder of the Company), pursuant to which the Company has conditionally agreed to allot and issue, and Rong De has conditionally agreed to subscribe for, 770,000,000 new Shares ("Subscription Shares", each a "Subscription Share") at the price ("Subscription Price") of HK$1.30 per Subscription Share ("Subscription"). The Subscription Price represents: (i) a discount of approximately 6.5% over the closing price of HK$1.39 per Share as quoted on the Stock Exchange on 23 November 2018 ("Last Trading Day"); (ii) a discount of approximately 7.8% over the average closing price of HK$1.41 per Share for the last five consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 9.1% over the average closing price of HK$1.43 per Share for the last 10 consecutive trading days up to and including the Last Trading Day; and (iv) a premium of approximately 60.5% over the audited net asset value per Share of the Company of approximately HK$0.81 as at 31 December 2017.

** English name is translated for identification purpose only*

Completion of the Subscription was conditional upon the following conditions precedent:

(i) the passing of the resolution(s) at the special general meeting of the Company by the independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including the granting of the specific mandate for the allotment and issue of the Subscription Shares to the Directors;

(ii) the holders of the 2016 Senior Notes and the 2017 Senior Notes having provided their written consent to the Subscription Agreement;

(iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in all of the Subscription Shares; and

(iv) in addition to conditions (ii) and (iii) above, the Company having obtained each necessary consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver (including but not limited to those provided by the Hong Kong Securities and Futures Commission, the Stock Exchange or any other third party (if applicable)) in relation to the Subscription Agreement and/or the transactions contemplated hereunder, and such consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver not having been revoked or withdrawn.

The Subscription represents a good opportunity for the Group to raise funds to strengthen its capital base and financial position and to support the development of its existing property development business which is a capital-intensive business.

After the conditions precedent as set out above had all been fulfilled, completion of the Subscription took place on 2 January 2019, upon which 770,000,000 Shares have been successfully subscribed by Rong De at the Subscription Price of HK$1.30 per Subscription Share. The total net proceeds of approximately HK$1,000.5 million received by the Company from the Subscription were intended to be used by the Group for repaying its bank and other borrowings.

FINANCIAL GUARANTEE CONTRACTS

The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties as follows:

	31 December 2018 HK$'000	31 December 2017 HK$'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**3,313,578**	2,682,760

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) the issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties.

FOREIGN EXCHANGE RATE

During FY2018, the Group conducted its business almost exclusively in RMB except that certain transactions were conducted in HK$ and US$. The conversion of RMB into HK$, US$ or other foreign currencies has been based on the rates set by the People's Bank of China. The value of RMB against HK$, US$ and other foreign currencies may fluctuate and is affected by factors such as changes in the PRC's political and economic conditions. During FY2018, the Group has not adopted any financial instruments for hedging purposes. However, the Group will constantly assess the foreign exchange risk it encounters so as to decide on the hedging policy required against the possible foreign exchange risk that may arise.

EMPLOYEE AND REMUNERATION POLICIES

The Group had in aggregate 332 employees in Hong Kong and the PRC as at 31 December 2018 (31 December 2017: 248). During FY2018, the level of the Group's overall staff cost was approximately HK$103.9 million (FY2017: HK$67.6 million). The employees of the Group are remunerated according to their respective job nature, market conditions, individual performance and qualifications. Other staff benefits include annual bonus and retirement benefits. The Directors' remuneration is determined based on their qualifications, experience, duties and responsibilities, the Company's remuneration policy and the prevailing market conditions.

The Group encourages sustainable training of its employees through coaching and further studies. In-house training has been provided to eligible employees during FY2018, including training on updates of accounting standards and training on market updates.

The Group has not experienced any significant problem with its employees or disruption to its operations due to labour discipline nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group has maintained a good relationship with its employees. Most members of senior management have been working for the Group for many years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT 2018

I. ABOUT THIS REPORT

As a socially responsible enterprise that has long been engaged in the business of property development, property investment, project management, and other property development related services in the PRC, the Group stringently adheres to its environmental and social responsibilities, actively scales up its efforts in various aspects to transition towards low-carbon development and is committed to stopping global warming. As such, the Group takes into consideration the material environmental, social and governance (collectively referred to as "ESG") matters alongside financial factors in its decision-making process and operations, and inherently connects its long-term success with the effectiveness of its corporate ESG management and sustainable development.

In strict compliance with the requirements under Appendix 27 — Environmental, Social and Governance Reporting Guide to the Rules Governing the Listing of Securities on the Stock Exchange, the Group is pleased to present its ESG Report ("ESG Report") for FY2018, which demonstrates the Group's approach and performance in terms of its ESG management and corporate sustainable development for FY2018.

II. BOARD INCLUSIVENESS

The Company is fully aware of the increasingly important role the Board plays in the implementation of its ESG management policies and the supervision of its daily practices to ensure that the Group is moving towards sustainable development. In order to facilitate communication of the relevant regulatory requirements throughout the entire organisation, and the staff to update the policymakers and executives of the Group on a timely basis with the hands-on experience they have gained in the daily operations of the Group, the Group has adopted a general top-down and bottom-up approach in its ESG management. In particular, the Board initiates sustainability strategies and guidelines for the Group to follow and keeps track of the relevant ESG indicators and metrics, whereas the management of the Group steers, supervises and monitors the implementation of the Group's sustainability practices. Different business units of the Group are responsible for the execution of the policies at different stages of operations.

The Board values the mutual understanding of what the Group needs to uphold its stable development and what its stakeholders expect in terms of the social contribution and environmental protection made by the Group. Hence, developing a purposeful culture that could align the ESG visions and the principles of the Company with its stakeholders' demands appears to be fundamental to the Group in the long run. The Board mainly acquires ESG information through the following channels which allow the Board to be kept informed on a timely basis of the ESG-related risks within the Group and the concerns of its stakeholders:

a. disclosure of key performance indicators in the Company's ESG reports;
b. oral presentations in the meetings between the Board and the ESG leader group of the Company;
c. Shareholders' general meetings, including annual general meetings; and
d. questionnaires/online surveys containing comments or feedback provided by the internal and external stakeholders of the Group.

III. MESSAGE FROM THE BOARD

The perseverance to move toward sustainable development has always been at the heart of our success. As one of the leading enterprises in its industry, the Company is proud of the commitment of its dedicated employees in providing high-quality products and services to its valued clients while keeping a positive attitude towards making contributions to the environment and society. Climate change has become a buzzword around the world nowadays, which is exerting complex and long-lasting effects on our business development and financial planning. To halt the devastation of climate change, it is imperative for the Group to figure out how to accurately assess the uniquely challenging climate-related risks and potential opportunities and what effects they would impose on our business in the future should the decision be made today. To prepare for the climate-related risks in advance, we keep benchmarking to our peers' data to enhance our capability in managing risks, and pursue full scale development to raise the general standard of living in the communities in which we operate. Further, in terms of the underlying risks the Group is facing now or in the near future, we have been committed to adjusting our business model and accelerating our resilience building by (i) improving our risk monitoring mechanism by conducting regular evaluations on the market to identify market changes on a timely basis; (ii) establishing a risk management framework; (iii) enhancing the awareness of risk management and fiduciary duty within the Group; (iv) reviewing and adjusting our strategic planning annually; and (v) deepening the analysis of our corporate strategy by compiling strategic measures and action plans every 3 years.

With such a strong ambition, we hope to improve our adaptability in order to better mitigate the climate-related risks and to incorporate the ESG mindset into our business decision making process in a more comprehensive manner.

IV. REPORTING PERIOD AND SCOPE OF THE REPORT

This ESG Report covers the environmental and social performance within the operational boundaries of the Group that includes the Group's businesses of property investment and property development and sales in the PRC, and the Group's offices in Hong Kong and the PRC.

The reporting period of this ESG Report is FY2018, unless specifically stated otherwise.

V. STAKEHOLDER ENGAGEMENT

Fostering a sound relationship with all stakeholders has been regarded by the Company as the premise of valuation creation for all. As such, the Company relies on its good corporate citizenship, reputational influence and strong capability in coordination to communicate and collaborate with its stakeholders effectively, including policy makers, regulators, investors, customers and suppliers. Through a broad range of open communication channels in recent years, the Group has successfully gained a deeper understanding of its stakeholders' concerns and expectations, which has facilitated the Group to better position itself in the competitive market and to make rapid and appropriate strategic adjustments.

Communication with Stakeholders

Stakeholders	Expectations and Concerns	Communication Channels
Government and regulatory authorities	— Compliance with laws and regulations — Anti-corruption policies — Occupational health and safety	— Supervision on compliance with local laws and regulations — Routine reports and tax payments
Shareholders	— Return on investments — Corporate governance — Business compliance	— Regular reports — Announcements — General meetings — Official website of the Company
Employees	— Employees' remuneration and benefits — Career development — Health and safety in the workplace — Sustainable solid waste management and water consumption	— Performance reviews — Regular meetings and trainings — Emails, notice boards, hotline and team building activities with management
Customers	— Production quality assurance — Protection of the rights of customers — Continuous promotion of suitable products/services to customers — Customer satisfaction	— Customer satisfaction surveys — Face-to-face meetings and on-site visits — Customer service hotline and emails
Suppliers	— Fair and open procurement — Win-win upstream and downstream cooperation — Environmental protection — Protection of intellectual property rights	— Open tenders — Suppliers' satisfaction assessments — Face-to-face meetings and on-site visits — Industry seminars
General public	— Involvement in communities — Business compliance — Environmental protection awareness	— Media conferences and responses to enquiries — Public welfare activities — Face-to-face interviews

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT 2018

Materiality Assessment

As ESG risks and opportunities vary among the stakeholders of the Group, involving different backgrounds, principal activities and business/operating models, the Group undertakes an annual review to identify its stakeholders' main concerns and material interests in relation to the ESG issues of the Group. In FY2018, the Group engaged its stakeholders to conduct a materiality assessment survey. Specifically, the Group selected certain internal and external stakeholders based on their influence and dependence on the Group. Stakeholders chosen in the first round of evaluation were then invited to participate in an online survey to express their views on a list of ESG issues of the Group. The online survey contained numerous well-designed questions, which were believed to be material and relevant to the Group's business development and strategies from the stakeholders' standpoint. Such an objective, transparent and decision-useful materiality assessment allowed the Group to prioritise its ESG issues after mapping the results of the survey to a materiality matrix as shown below. The assessment process demonstrated the Group's emphasis on stakeholders' engagement. The results of the survey served as a powerful tool which assisted the Group to develop its action plans for more focused ESG management.

Stakeholder Engagement Materiality Matrix

1	Air and greenhouse gas ('GHG') emissions	11	Occupational health and safety	21	Marketing and promotion
2	Sewage treatment	12	Employee development and training	22	Observance and protection of intellectual property rights
3	Land use, pollution and restoration	13	Prevention of child and forced labour	23	Quality control and management of products
4	Solid waste treatment	14	Suppliers' geographical regions in which materials are sourced	24	Protection of consumer information and privacy
5	Energy use	15	Selection of suppliers and assessment of their products/services	25	Labelling relating to products/services
6	Water use	16	Environmental protection assessment of the suppliers	26	Prevention of bribery, extortion, fraud and money laundering
7	Use of raw/packaging materials	17	Social risks assessment of the suppliers	27	Anti-corruption policies and whistle-blowing procedures
8	Mitigation measures to protect natural resources	18	Procurement practices	28	Understanding local communities' needs
9	Composition of employees	19	Health and safety relating to products/services	29	Public welfare and charity
10	Employee remuneration and benefits	20	Customer satisfaction		

Through the materiality analysis matrix, the Group identified *'Customer satisfaction'*, *'Health and safety relating to products/services', 'Prevention of bribery, extortion, fraud and money laundering', 'Prevention of child and forced labour'* and *'Occupational health and safety'* as its most important ESG issues.

Stakeholders Feedback

As the Group strives for excellence, the Group welcomes its stakeholders' feedback and advice on the improvement of its corporate ESG approach and performance, especially the ESG issues identified as the most important in the materiality assessment of the Group. Readers are also welcome to share their views on the ESG matters with the Group at info@zhuguang.com.hk or www.zhuguang.com.hk.

VI. ENVIRONMENTAL SUSTAINABILITY

To seek long-term sustainability of the environment and community in which it operates, the Group has made tremendous efforts in controlling its emissions as well as its consumption of resources, and has strictly complied with the relevant environmental laws and regulations in Hong Kong and the PRC in its daily operations, including but not limited to the following:

- *Environmental Protection Law of the People's Republic of China* (中華人民共和國環境保護法);*
- *Environmental Impact Assessment Law of the People's Republic of China* (中華人民共和國環境影響評價法);*
- *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes* (中華人民共和國固體廢物污染環境防治法);*
- *Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise* (中華人民共和國環境噪聲污染防治法);*
- *Law of the People's Republic of China on Prevention and Control of Water Pollution* (中華人民共和國水污染防治法);*
- *Atmospheric Pollution Prevention and Control Law of the People's Republic of China* (中華人民共和國大氣污染防治法);*
- *Energy Conservation Law of the People's Republic of China* (中華人民共和國節約能源法); and*
- *Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong).*

The following section primarily discloses the Group's policies, practices, and quantitative data on its emissions, use of resources, the environment and natural resources in FY2018.

A.1. Emissions

In FY2018, the Group has complied with the relevant national and local environmental laws in terms of emissions during its daily operations. In particular, the Group was not in violation of any laws and regulations in relation to air and greenhouse gas ("GHG") emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, and noise that have a significant impact on the Group. Sticking to the vision of 'innovative, coordinated, green and open development' (創新 協調 綠色 開放 共享的發展理念), the Group has implemented various measures to mitigate its impacts on the environment, thereby facilitating the building of ecological civilisation.

** English name is translated for identification purpose only*

During the year under review, air pollutants emitted by the Group, such as sulphur oxides ("SOx"), nitrogen oxides ("NOx") and particulate matter ("PM"), were mainly generated from vehicles used for transportation. Specifically, the Group's air emissions of SOx, NOx and PM amounted to 0.60 kg, 26.08 kg and 1.92 kg, respectively in FY2018. GHGs are a major contributor to climate change and have been rigorously governed by the United Nations' Framework Convention on Climate Change. GHG emissions from the Group were primarily due to the burning of fossil fuels and the electricity used in its business operations and transportation. In FY2018, the Group's total GHG emissions amounted to 1,344.12 tonnes of CO_2e, with an intensity of 0.50 tonnes of CO_2e/HKD million. In addition, a total of 14 tonnes of non-hazardous domestic, commercial and construction wastes, and 5,046.5 tonnes of non-hazardous wastewater were generated by the Group during FY2018. In FY2018, the Group did not discharge any hazardous wastes (solid waste and sewage) to the environment during its operations. The Group's total emissions in FY2018 are summarised in Table 1 below.

Table 1 The Group's Total Emissions by Category in FY2018

Emission Category	Key Performance Indicator (KPI)	Unit	Amount in FY2018	Intensity* (Unit/HKD million) in FY2018	Intensity# (Unit/HKD million) in FY2017
Air Emissions	SOx	Kg	0.60	2.22×10^{-4}	–
	NOx	Kg	26.08	9.64×10^{-3}	–
	PM	Kg	1.92	7.10×10^{-4}	–
GHG Emissions	Scope 1 (Direct Emissions)	Tonnes of CO_2e	92.58	–	–
	Scope 2 (Energy Indirect Emissions)	Tonnes of CO_2e	1,250.31	–	–
	Scope 3** (Other Indirect Emissions)	Tonnes of CO_2e	1.23	–	–
	Total (Scope 1 & 2 & 3)	Tonnes of CO_2e	1,344.12	0.50	0.84
Non-hazardous Waste	Solid Wastes	Tonnes	14.00	5.18×10^{-3}	0.33
	Wastewater	Tonnes	5,046.50	1.87	1.39

* *Intensity for FY2018 was calculated by dividing the amount of air, GHG and other emissions respectively by the Group's revenue of approximately HKD2,704.8 million in FY2018.*

\# *Intensity for FY2017 was calculated by dividing the amount of GHG and other emissions respectively by the Group's revenue of approximately HKD2,766.5 million for FY2017.*

** *The Group's Scope 3 (Other Indirect Emissions) included only paper waste disposed of at landfills.*

*** *The methodology adopted for reporting on GHG emissions set out above was based on "How to Prepare an ESG Report ? — Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.*

Environmental, Social and Governance (ESG) Report 2018

Hong Kong Office

The Group's Hong Kong office is located at Two International Finance Centre ("Two IFC") in Central. Two IFC has received a number of awards and accolades for its continuous efforts in promoting environmental protection and energy efficiency during recent years.

Accolades from Hong Kong

The Group takes the following awards received by Two IFC from the government and the community as a great honour and commendation for Two IFC's accomplishment in moving towards green development, and such awards constantly spur the Group to assume a greater social responsibility in leading the sustainable development of the entire industry in which it operates:

a. HKGBC CERTIFICATION

In FY2018, Two IFC has achieved Final Platinum rating under the BEAM Plus EB V2.0 Comprehensive Scheme, which marked its success in promoting the building of environmental protection awareness among business entrepreneurs and providing a comfortable and green working environment.

b. ENVIRONMENTAL CAMPAIGN COMMITTEE CERTIFICATION

Two IFC has been recognised as a Hong Kong Green Organisation in FY2018.

c. HONG KONG GREEN ORGANISATION CERTIFICATION

In FY2018, Two IFC endeavoured to pay great attention to improving its indoor air quality and was awarded the IAQwi$e Certificate (Excellent Level) under Hong Kong Green Organisation Certification.

d. INDOOR AIR QUALITY CERTIFICATE

In FY2018, Two IFC was certified by the Environmental Protection Department of the Government of Hong Kong ("EPD") that its indoor air quality has fully attained the Excellent Class of the Indoor Air Quality Objectives.

e. CERTIFICATE OF APPRECIATION

It is estimated that there are over 6 million computers and computer accessories in use in Hong Kong and about one fifth of them are replaced each year. In FY2018, Two IFC actively participated in the Computer & Communication Products Recycling Programme and received the certificate of appreciation from the EPD.

To efficiently manage its commercial solid waste, the Group has adopted various measures, such as using centralised garbage cans for the collection of waste in its Hong Kong office. Besides, the Group has put efforts into waste classification. The sorted municipal solid waste from the office is handled and disposed of by the property management of Two IFC.

In FY2018, the wastewater generated from the Hong Kong office of the Group was directly discharged into the sewage network of the office building and handled by the property management of Two IFC. Since the amount of wastewater generated highly depends on the amount of fresh water used, the Group has taken specific measures to reduce the water consumption in its Hong Kong office, which are further described in the subsection headed "Water" under the subsection headed "A.2 Use of Resources" in this report.

Property Investment

Major emissions from the Group's property investments business during FY2018 were domestic and commercial solid waste and sewage. During the year under review, the Group laid great emphasis on the management of its daily waste generation and aimed to minimise its environmental impact at source by strictly controlling its use of resources, such as paper and water. Specific measures are further described in the subsection headed "A.2 Use of Resources" in this report.

Property Development

Emissions generated from the Group's property development business during FY2018 comprised air and GHG emissions, solid waste, wastewater and noise emissions. As the Group is fully aware that land-use patterns, planning and design, construction practices and materials used in property development are major determinants of emissions to the environment, it attaches great importance to every choice it makes during the design phase of its development projects and the effectiveness of its implementation of the relevant policies that control emissions during its operations.

Air & GHG Emissions

In FY2018, air and GHG emissions generated during the construction operations of the Group mainly came from the use of gasoline and electricity by onsite machineries and heavy vehicles for operation and transportation purposes. To standardise its operating practices thereby minimising its environmental impacts, the Group has formulated an internal policy 'Anti-pollution and Anti-noise Construction Scheme'* (防污染防噪音施工方案), which introduces and regulates the sustainable measures to be applied to every construction project of the Group, that requires the following practices to be adopted at each construction site of the Group:

- Clean the wheels of the vehicles before leaving the construction site;
- Rinse the ground or sprinkle water daily to settle the dirt and avoid sludge accumulation; and
- Install bag-house dust collectors, closed hoods and pressurised dust reduction spray devices along the main road of the construction site.

**English name is translated for identification purpose only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT 2018

Since the consumption of electricity and other energy resources is the principal contributor to the generation of air pollutants and GHG emissions within the Group, the Group has set up internal policies regulating the procedures of energy conservation in order to mitigate its impacts on the environment at source, which are further described in the subsections headed "Electricity" and "Other energy resources" below.

Wastewater

Wastewater generated from the Group's property development business during FY2018 consisted of industrial sewage during construction operations and domestic wastewater from workers. Laying great emphasis on the development of a circular economy in the Group and aiming to reach the goal of zero water discharge in the near future, the Group has installed sewage treatment facilities in the construction sites for construction and domestic wastewater treatment, which are regularly checked for regulatory compliance by the environmental department of the relevant local governments. Specifically, domestic wastewater on site is primarily treated through three-level septic tanks, while sedimentation basins have been set up on site for the treatment of construction wastewater before it is discharged into the municipal sewage network. The normal operation of such facilities would make sure that onsite wastewater meets the first grade under the Integrated Wastewater Discharge Standard (GB 8978-1996) * (污水綜合排放標準一級標準) of the PRC after treatment. The floating mud generated during the treatment process is normally collected and transported to certified external environmental organisations for further disposal.

Solid Waste

As onsite waste management has long been one of its most important tasks in reducing the environmental impacts resulted from its operations, the Group has taken a variety of effective measures and established solid waste stewardship strategy to implement sustainable and eco-friendly waste management. Specifically, the Group has fully complied with and implemented the policies stipulated by the government or local authorities for construction waste management in FY2018, such as the regulation on how much waste needs to be sorted before it is transported to landfills or other waste treatment facilities. Depending on the types of solid waste on site, the Group is committed to reusing and recycling as much construction waste as possible. For example, rubble is collected, crushed, transported and reused in new construction projects and road building. Steel residues and wooden square bars are collected and transported regularly to landfill sites for disposal by special trucks. As for other general solid waste, the local sanitation department collects the domestic waste on a daily basis.

Noise

Noise emissions generated by the Group during FY2018 mainly came from the running of machineries and equipment during the construction processes. In strict compliance with the national and local regulations of the PRC in relation to noise emissions, such as the Emission Standards for Industrial Enterprises Noise at Boundary (GB12348-2008), the Group has utilised efficacious noise-reduction facilities and measures to mitigate its impacts of the noise pollution on the surroundings. Shock pads and real-time sound monitoring equipment were some of the noise control tools used by the Group in its construction sites in FY2018. The Group hopes to lower its impact of noise at source through practical innovation and brand-new equipment that is notably quieter, more environmentally friendly and more efficient, such as the equipment with QPME (Quality Powered Mechanical Equipment) Labels, when compared with outmoded machineries, which might generate noise of higher decibel levels.

** English name is translated for identification purpose only*

A.2. Use of Resources

In FY2018, the primary resources consumed by the Group were electricity, water, gasoline, paper and other construction materials. Given the nature of its business, the Group did not consume any packaging material during the year under review. Table 2 illustrates the amount of different resources used by the Group in FY2018.

Table 2 Total Resource Consumption in FY2018

Use of Resources	Key Performance Indicator (KPI)	Unit	Amount in FY2018	Intensity* (Unit/HKD million) in FY2018	Intensity# (Unit/HKD million) in FY2017
Energy	**Electricity**	kWh'000	2,312	0.85	1.35
	Gasoline	L	40,494	14.97	51.26
Water	**Water**	m^3	127,886	47.28	75.47
Paper	**Paper**	Kg	257	0.10	4.00
Construction materials	**Metal**	Tonnes	9,492.1	3.51	97.38
	Cement	Tonnes	14,633.2	5.41	2.74
	Wood	Tonnes	25	0.01	0.54
	Aerated block	m^3	17,822.1	6.59	–
	Concrete	m^3	66,156.6	24.46	–

* *Intensity for FY2018 was calculated by dividing the amount of resources the Group has consumed in FY2018 by the Group's revenue of approximately HKD2,704.8 million for FY2018.*

Intensity for FY2017 was calculated by dividing the amount of resources the Group has consumed in FY2017 by the Group's revenue of approximately HKD2,766.5 million for FY2017.

Electricity

The Group purchases the electricity consumed in its daily operations at its offices and construction sites from the local public utilities companies. Due to the unwavering efforts in electricity conservation of the Group, the total electricity consumption of the Group in FY2018 was 2,312 kWh'000, which was around 38% lower than that in FY2017. To further mitigate the consumption of electricity so as to diminish its GHG emissions, the Group has embedded the slogan of 'Saving Electricity' into its business strategy and daily operations, and in particular implemented the following practices:

- Switch off all idle lights and air conditioners (e.g. most electrical equipment is turned off during lunch time);
- Maintain the electrical equipment in the offices (including air conditioners and paper shredders) regularly to upkeep their efficiency;
- Adjust the set temperature of air conditioners at offices based on the weather at the time;
- Use more efficient LED bulbs for office lighting instead of energy-intensive lamps in both offices and construction sites; and
- Encourage all employees to keep the curtains open and utilise natural sunlight in the offices when possible.

Environmental, Social and Governance (ESG) Report 2018

The Group is aware of the increasingly severe consequences and risks to the ecosystem, human health and the economy caused by climate change, which is primarily due to various global human activities, including, most importantly, the burning of fossil fuels for electricity generation. Thus, to join the big family of energy conservation and make its own contributions to saving electricity, in FY2018, the Group's Hong Kong office at Two IFC participated in the "Energy Saving Charter 2018" plan organised by the Electrical and Mechanical Service Department of the Government of Hong Kong. Between June and September of 2018, the Group successfully maintained its indoor temperature at between 24 to 26 degrees Celsius. Moreover, the Group took part in the 'Earth Hour' worldwide movement organised by the World Wide Fund for Nature, turning off non-essential electric lights for one hour collectively with all participants globally in 2018. The Group's participation into such activities was not only a pledge of its social responsibility, but more importantly, a spiritual inspiration for the Group and its employees, whose individual and seemingly minor change could collectively make the planet better.

Other energy resources

The consumption of other energy resources in the construction sites of the Group, primarily in the form of gasoline, has also drawn the Group's attention. In FY2018, gasoline was mainly used by the Group for transportation. As energy is essential for its construction process, the Group has always been committed to optimising its operations and believes that ensuring its access to secure and reliable energy sources is the key to the long-term stability of the Group's business.

As compared with FY2017, the amount of gasoline consumed by the Group in FY2018 dwindled by approximately 71%. In addition to the promotion of energy conservation among its employees, the Group has also put its focus on choosing environmentally-friendly vehicles for transportation and operations, redesigning its machineries to be more eco-efficient, and initiating a competitive mechanism to incentivise the subsidiaries of the Company to pursue a 'low carbon and low consumption' operating process.

Water

Water conservation has been given great attention by the Group. In FY2018, there was a substantial decrease (38%) in water consumption within the Group when compared with that in FY2017. During the year under review, the Group did not face any problem in sourcing water that was fit for its purpose. In FY2018, the Group has organised several meetings at the construction sites delving into more advanced and effective ways of saving water in all construction sites, and workers and employees of the Group have been incentivised to try their best to reuse wastewater. For example, wastewater at the construction sites is normally recycled and reused for wheel washing and spraying purposes after treatment, which has saved tonnes of water for the Group. Besides, some subsidiaries of the Company in the PRC have installed rainwater harvesting systems (雨水回收系統) to collect and store rainwater for human use. To improve the utilisation efficiency of water resources, the Group has further adopted the following practices:

a. Fix dripping taps immediately once leakage is found;
b. Remind staff to turn off water taps after use through emails and notices; and
c. Place "saving water resources" posters in prominent places at the construction sites and in the offices to encourage water conservation.

Paper

The Group has been dedicated to saving paper in its offices by promoting the concept of 'paperless office' and has already achieved significant progress. In FY2018, a total of 257 kg paper was consumed, which was around 95% less than that in FY2017. The measures taken by the Group to save the use of paper are highlighted as follows:

- Promote the concept of paperless office and office automation, and disseminate information by electronic means (i.e. emails or e-bulletin boards) as much as possible;
- Set duplex printing as the default mode for most of the network printers;
- Spread the idea of "think before you print" by using posters and stickers in the offices to remind the staff to avoid unnecessary printings; and
- Use the back of old single-sided documents for printing or as draft paper.

Raw Materials

To minimise its environmental footprint, it is the policy of the Group to promote the efficient use of raw materials in its operations. Major raw materials, such as metals, cement, wood, aerated block and concrete were consumed by the Group in its construction operations during the year under review. As shown in Table 2 above, the Group has made solid progress in FY2018 by significantly reducing the amount of construction materials. In particular, the Group has adopted the following practices:

- Use aerated blocks to reduce the weight of the walls;
- Use new polymer waterproofing membranes to prevent water penetration;
- Use hollow glass tiles for insulation;
- Optimise construction procedures at the planning and design stage to improve the efficiency of material utilisation; and
- Choose responsibly sourced green construction materials to reduce the embodied impacts related to energy, waste, carbon and water.

A.3. The Environment and Natural Resources

Through a series of measures to save electricity, water, gasoline and raw materials during its operations as disclosed, the Group has made significant progress towards the building of a reliable, resilient and sustainable corporation that pioneers in the property development industry in the PRC. In FY2018, the Group's relatively significant impact on the environment was air pollution due to the consumption of electricity and fossil fuels during its operations. However, the Group's environmental impact in relation to air pollution in FY2018 was considerably reduced when compared with that in FY2017 due to its unremitting efforts to create a resource-saving and environmentally-friendly enterprise. Undoubtedly, GHG emissions have been closely connected with climate-related crises nowadays. To minimise corporate GHG emissions as well as lower the individual carbon footprint of its employees, the Group keeps optimising its business model and relying on the efficient use and control of energy resources, especially the close monitoring of the details of its daily operations. Specifically, two main areas have been and will continue to be of fundamental importance to the sustainable development of the Group's environmental vision:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT 2018

First, the Group is committed to seizing every opportunity to innovate and design the machineries to be used in its daily operations, so that they are eco-efficient in terms of their energy consumption, air and GHG emissions, and most importantly, in compliance with the relevant environmental regulations. For example, by investing in state-of-the-art technology to monitor the consumption of materials at every stage of its property development projects, the Group is committed to improving its operating efficiencies and avoiding unnecessary consumption of natural resources and raw materials. Furthermore, the Group plans to adopt the Prefabricated, Prefinished Volumetric Construction (PPVC) technology for its large-scale construction developments in the future, a method that could enhance worksite safety and result in cleaner worksites by generating less waste.

Second, the Group values the education and advocacy of low-carbon operation and lifestyle and endeavours to cultivate the good habits of diligence and frugality in relation to the use of natural resources among its employees through a variety of channels. For instance, the Group participated in the Red Envelope Recycling Programme 2018 organised by Two IFC during the year under review, which recommended its employees to collect and recycle red envelopes after the Chinese New Year. Further, through supporting the advocacy of the recycling of peach blossoms by Two IFC, the Group encouraged its employees in the Hong Kong office to recycle peach blossoms after the festivals, which could be used for compost. In addition, the Group proactively joined the activity of recycling mooncake boxes held by Two IFC. The profits from the sale of those boxes were subsequently donated to the charitable organisations. Apart from engaging in meaningful activities that would raise the awareness of environmental protection among its employees, the Group has also formulated a number of internal policies, such as the 'Notice on Strengthening Office's Energy Saving and Consumption Reduction'* (關於加強辦公室節能降耗工作的通知) and the 'Notice on Implementing Office Energy — Saving Inspection System'* (關於實施辦公室節能降耗巡查制度的通知), in order to further regulate the daily practices of all the subsidiaries of the Company to contribute to environmental protection.

Moving forward, the Group remains steadfast in seeking to reduce, reuse, and recycle waste from both its offices and construction sites whenever feasible and exploring the application of renewable energy and environmentally sound solutions to a variety of pollution-related problems, such as onsite construction waste management and discharge of sewage in the construction sites, which is critical to the present and future of the sustainable development of both the Company and our planet.

** English name is translated for identification purpose only*

VII. SOCIAL SUSTAINABILITY

EMPLOYMENT AND LABOUR PRACTICES

B.1. Employment

As a diversified enterprise that relies on technological advancement in property construction and the efforts made by its employees in daily operations for success, the Group believes that sound capital management and the formulation of appropriate employment policies are foundational to the long-term stability and competitiveness of the Company. As such, the Group treasures employees' talent and strives to provide its employees with a suitable platform and working environment for their professional development.

Table 3 Total Workforce of the Group by Gender and Geographical Region in FY2018

By Gender	Number of employees in the HK office	Number of employees in the PRC subsidiaries	Total
Male	4	194	198
Female	4	130	134
Total	8	324	332

Law and Compliance

The Group's employment policies have been updated and adjusted to cater to social changes since the inception of the Company, and more importantly, to abide by the relevant laws and regulations in Hong Kong and the PRC. In FY2018, the Group complied with all the relevant laws and regulations, including the following:

- *Employment Ordinance (Cap. 57 of the Laws of Hong Kong);*
- *Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong);*
- *Disability Discrimination Ordinance (Cap. 487 of the Laws of Hong Kong);*
- *Sex Discrimination Ordinance (Cap. 480 of the Laws of Hong Kong);*
- *Labour Law of the People's Republic of China* (中華人民共和國勞動法); and*
- *Insurance Law of the People's Republic of China* (中華人民共和國社會保險法).*

**English name is translated for identification purpose only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT 2018

Recruitment and promotion

The Group has adopted a set of transparent and clear policies to conduct its annual recruitment plan, such as 'Human Resource Management Procedures' * (人力資源管理辦法) and 'Recruitment Management Regulations' * (招聘管理規定). The Group considers talent acquisition to be essential to keeping the Group energetic and competitive in the market. The Group has organised a number of job fairs and campus recruitment during the year under review.

Pursuant to its recruitment policy, the Group offers fair and competitive remuneration and benefits in accordance with the applicants' educational backgrounds, personal attributes, job experiences and career aspirations to attract high-calibre candidates. The Group also refers to market benchmarks in relation to staff promotion and provides equal opportunities of promotion and development for eligible employees who have shown outstanding performance and potential in their positions. With reference to the organisational structure chart and the 'Staff Handbook*' (員工手冊) of the Group, any promotion within the Group is based on clear and legitimate procedures.

Compensation and dismissal

As talent retention is vital to its business development in the long run, the Group periodically reviews its compensation packages and performs the probationary and regular evaluations on the capability and performance of its employees, to ensure that all employees can be recognised by the Group appropriately with respect to their efforts and contributions. Adjustment of compensation and termination of employment which are determined by a number of factors, such as performance of the relevant employee and the Company, are based on reasonable and lawful grounds and the internal policies of the Group, such as the 'Staff Handbook'* (員工手冊) and the 'Implementation Rules for Staff Turnover and Movement on Positions'* (員工異動管理實施細則). Since the Group strictly prohibits any kind of unfair or illegitimate dismissal, stringent policies regulating the procedures of dismissal of employees are in place for employee management. In particular, for employees who have violated the Group's employment policies, the Group would warn them verbally before issuing a warning in writing. For employees who keep on making the same mistakes repeatedly notwithstanding having been warned, the Group would terminate their employment contracts according to the relevant laws and regulations in Hong Kong or the PRC (as the case may be).

** English name is translated for identification purpose only*

Working hours and rest periods

Striking a proper balance between work and leisure can effectively help employees recharge their batteries while, in return, enhancing the productivity of the Company. As such, the Group has formulated policies, such as 'Implementation Rules for Attendance'* (考勤管理實施細則), based on local employment laws including Provisions of the State Council on Employees' Working Hours* (國務院關於職工工作時間的規定) to determine the working hours and rest periods for its employees. For instance, an attendance management system coupled with a field work registration form (外勤登記表) that needs to be filled in detail by an employee and approved by the relevant department manager, have been adopted by the Group to monitor the working hours of each employee and to ensure that the employees who have worked overtime would be compensated with extra pay or additional days off. In addition to basic annual leave and statutory holidays, employees of the Group are also entitled to extra leave benefits, such as marriage leave, maternity leave and compassionate leave.

Equal opportunity, diversity and anti-discrimination

To the Group, which is an equal opportunity employer, creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all its human resources and employment decisions should never be just a slogan. Rather, the Group hopes to implement strict policies to regulate its daily corporate practices and avoid any activities that may violate the principles of equal opportunity and anti-discrimination. Specifically, hiring, training, promotion opportunities, dismissal and retirement policies are all based on factors irrespective of the applicants' or the employees' age, sex, marital status, pregnancy, family status, disability, race, colour, descent, national or ethnic origins, nationality, religion or any other non-job related factors. Meanwhile, in accordance with the local laws and regulations, the Group's equal opportunity policy allows zero tolerance to any workplace discrimination, harassment or vilification. Employees are vigorously encouraged to report any incidents involving discrimination to the human resource department of the Group, which takes the responsibility for assessing, dealing with, recording and taking any necessary disciplinary actions in relation to the substantiated cases.

Other benefits and welfare

The Group cares about the well-being of its employees and believes that they can help realise the corporate values of the Company. The Group provides employment injury insurance for its employees in accordance with the requirements under the relevant laws and regulations. In addition, meals and uniforms are offered to certain employees of the Group as well. During a number of traditional Chinese festivals, employees may receive additional bonuses and gifts. In FY2018, the Group organised various meaningful and entertaining activities, including dinner gatherings, annual banquet, quarterly birthday parties, garden parties for the Mid-autumn festival, basketball games, tree planting and excursions, in order to create a positive atmosphere among the employees of the Group.

** English name is translated for identification purpose only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT 2018

Zhuguang activities in FY2018

1 | 2 | 3

1. Basketball game of 'Zhuguang Labour Union Cup'
2. Hiking activity by employees
3. 'Zhuguang Green Movement' Tree Planting

In FY2018, the Group was in compliance with the relevant laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, welfare and other benefits that have a significant impact on the Group.

B.2. Health and Safety

Health and safety at work involves both the prevention of harm and the promotion of employees' well-being at the workplace. To provide and maintain a safe, clean and environmentally-friendly working environment for its employees, the Group has established strict safety and health policies in line with the relevant laws and regulations in Hong Kong and the PRC, including the following:

- *Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong);*
- *Construction Law of the People's Republic of China* (中華人民共和國建築法);*
- *Law of the People's Republic of China on Prevention and Control of Occupational Diseases* (中華人民共和國職業病防治法);*
- *Production Safety Law of the People's Republic of China* (中華人民共和國安全生產法);*
- *Administrative Provisions on the Work Safety License of Construction Enterprises* (建築施工企業安全生產許可證管理規定);*
- *Administrative Regulations on the Work Safety of Construction Projects* (建設工程安全生產管理條例);*
- *Regulation on Work-Related Injury Insurance* (工傷保險條例); and*
- *Warning Signs for Occupational Hazards in the Workplace* (工作場所職業病危害警示標識).*

** English name is translated for identification purpose only*

To strive for zero accidents in its construction works, the Group rigorously follows the instructions of the Quality Management Systems (ISO 9001:2015) and the Occupational Health and Safety Management Systems (ISO 45001: 2018) (a new ISO standard that specifies requirements for an occupational health and safety (OH&S) management system and provides guidance for its use in place of the previous OHSAS 18001) during its construction operations. In particular, relevant warning labels and public announcements regarding onsite health and safety are posted in the construction sites. In addition, the Group prohibits smoking and liquor drinking at the workplace. To provide a secure working environment for its employees, the Group provides suitable personal protective equipment, such as helmets, safety ropes and gloves to its workers on the sites and requires all personnel entering into the construction zone to wear safety helmets. The Group also provides medical and employment injury insurances to its staff according to the requirements under the relevant laws and regulations.

The engineering management department of the Group strictly follows the instructions under the Group's internal policy, 'Safe Production and Civil Construction Management', in carrying out its responsibility of monitoring and providing guidance and supervision in relation to construction work at its construction sites. Adhering to the Group's internal guidelines of 'Safety First, Precaution Matters', the Group has clearly defined the duties of the different business units on the construction sites, which is considered a fundamental step to prevent any chaotic circumstances from arising. For instance, the contractor of a project is in charge of the management of onsite safe production, and all sub-contractors must act in accordance with the instructions of the contractor. With the goal to lower the risk of operational accidents while improving the capability of the Group to deal with emergencies, the Group is committed to optimising its countermeasures to any environment-related contingency in accordance with the National Emergency Plans in Response to the Outbreak of Environmental Incidents* (國家突發環境事件應急預案).

During the year under review, the Group had two cases of work-related fatalities and there was no violation of any of the relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards that have a significant impact on the Group.

B.3. Development and Training

The Group has always been committed to designing and providing suitable training programmes to its employees and has organised a multitude of trainings that cover numerous subjects during the year under review in accordance with its internal policy, 'Implementation Rules on Training'* (培訓管理實施細則). Generally, a complete training package is provided to new hires which serves to provide them with an introduction of various aspects of the Group, such as corporate culture, organisational structure, and occupational health and safety, while other job-related courses are offered to the experienced staff according to both corporate and individual needs.

** English name is translated for identification purpose only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT 2018

To further enhance their professional skills so as to meet the Group's development goal, the employees of the Group are highly encouraged to take professional qualification examinations and attend external trainings. Employees who have taken professional qualification examinations and obtained vocational qualification certificates will receive reimbursements from the Group. Meanwhile, the Group regularly invites external organisations and experts to provide relevant trainings to its employees.

In FY2018, the time spent by each employee of the Group on trainings was 5.2 hours on average and the training programmes held for the Group's employees are highlighted as follows:

Item	Category of training	Training topic	Training type	Number of attendees	Male	Female
1	**Senior management programme**	Closed-end management - the upgrade road of city in the real estate enterprise	Internal	49	35	14
2		Marketing management	Internal	32	19	13
3		Field trip for excellent projects	Field trip	28	17	11
4		Sand table exercise of property development and management	External	38	23	15
5		Real estate innovation club - industry trend analysis, corporate operational innovation and talent introduction	Public class	4	2	2
6	**Zhuguang lecture**	New patterns of city	External	72	43	29
7		Compliance management of enterprise	External	65	39	26
8		Analysis of updated urban policies	External	89	53	36
9	**General training**	Induction training in 2018	Internal	49	29	20
10		Office software (excel) skill training	Internal	87	52	35
11		Human resources and administrative affairs training	Internal	45	10	35
12		Induction training for new hires	Internal	37	22	15
13		Apartment layout design and specifics	Internal	8	6	2
14		Refined decoration and specifics	Internal	8	6	2
15		Landscape design and specifics	Internal	7	5	2
16		Mortgage knowledge of China Construction Bank training	Internal	10	6	4
17		Mortgage knowledge of Bank of Beijinig training	Internal	9	5	4
18		Practical operational procedures of added-value tax in a real estate enterprise	Network	5	3	2
19		Regional development and stengths and weaknesses of products	Internal	10	3	7
20		Systematic additional recording of marketing expenses training	External	17	7	10
21		Second grade automatic computer software operation	Internal	15	11	4
22		Induction training	Internal	11	7	4
23		Budget control and plan	Internal	29	24	5
24		Bid and price negotiation, declaration of value of output, and testation and balance of construction project	Internal	31	26	5
25		Approval process, functional classification and reimbursement process	Internal	13	8	5
26		Onsite civil construction management	Internal	15	13	2
27		Corporate culture, regulations and rules, and occupational stress and mood management I	Internal	17	10	7
28		Safety training of using electricity on site	Internal	13	13	0
29		Sales skills and mentality management	Internal	16	10	6
30		Alkali efflorescence of dimension stone and prevention of leakage	Internal	15	13	2
31		Corporate culture, regulations and rules, and occupational stress and mood management II	Internal	4	2	2
32		How to make beautiful Powerpoint slides	Internal	10	6	4
		Total		**858**	**528**	**330**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT 2018

B.4. Labour Standards

In FY2018, the Group abided by the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), the Labour Law of the People's Republic of China* (中華人民共和國勞動法) and other related labour laws and regulations in Hong Kong and the PRC to prohibit any child and forced labour employment. To combat against illegal employment of child labour, underage workers and forced labour, the Group's human resource department requires all job applicants to provide valid identity documents to ensure that they are lawfully employable prior to confirmation of any employment. It is also the responsibility of the Group's human resource department to monitor and guarantee the compliance of corporate policies and practices with the relevant laws and regulations that prohibit child labour and forced labour. Once the Group has identified any case which fails to comply with the relevant labour laws, regulations and standards, the relevant employment contract will be immediately terminated.

In FY2018, the Group was not in violation of any relevant laws and regulations in relation to the prevention of child and forced labour that have a significant impact on the Group.

OPERATING PRACTICES

B.5. Supply Chain Management

An effective supply chain management is the lifeblood of any company in its business growth. As a result, the Group has given serious attention to the mitigation of the environmental and social risks that may affect its supply chain in order to maintain a reliable and stable financial income while fulfilling its environmental commitment. As a socially responsible enterprise, the Group is aware of its duties and obligations in strengthening its management and control over its suppliers, including sub-contractors and intermediaries. The Group requires its contractors and sub-contractors to fully comply with the PRC laws and regulations in relation to the property construction as well as the Group's own standards and specifications.

Given that its construction work is normally outsourced, the Group has formulated its internal policy, 'Implementation Rules for Cooperative Management'* (合作商管理實施細則), to manage and evaluate the performance of its suppliers. To enhance the effectiveness of its procurement, the Group, in accordance with its two other internal policies, namely, 'Implementation Rules for Procurement Management'* (招標管理實施細則) and 'Implementation Rules for Evaluation on Construction Unit'* (施工單位評價管理細則), performs onsite investigations to assess the background of eligible tenderers based on several factors, including tenderers' reputation, service/product quality, environmental management qualification, cost, production and technical capacity, business track record for at least the recent 3 years, economic disputes history with the Group and regulatory compliance. To stabilise its supply chain and avoid the monopoly of suppliers, the Group normally maintains relationships with at least two qualified suppliers for each type of raw materials it needs.

** English name is translated for identification purpose only*

As the Group is committed to keeping the social and environmental risks associated with its suppliers under control according to the Quality Management Systems (ISO 9001:2015), it has classified its suppliers into different groups in order to implement differentiation management strategies towards its suppliers. Cooperation surveys with its suppliers are conducted by the Group regularly to minimise potential risks and to address any problem that may harm the business relationship between the Group and its suppliers later. Given the solid and steady relationships with its suppliers, the Group has not experienced any material delays, conflicts or other significant issues with its suppliers in the past years. The Group values the mutual understanding with its suppliers and believes respect toward each other is vital to maintaining a sustainable and robust business relationship with its business partners.

B.6. Product Responsibility

In FY2018, the Group was in compliance with the relevant rules, regulations and standards in Hong Kong and the PRC that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters with respect to its products and services and methods of redress, including the following:

- *Construction Law of the People's Republic of China* (中華人民共和國建築法);*
- *Law on Protection of Consumer Rights and Interests of the People's Republic of China* (中華人民共和國消費者權益保護法);*
- *Advertising Law of the People's Republic of China* (中華人民共和國廣告法);*
- *Administrative Regulations on the Work Safety of Construction Projects* (建設工程安全生產管理條例);*
- *Regulations on Quality Management of Construction Projects* (建設工程質量管理條例);*
- *Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong); and*
- *Consumer Council Ordinance (Cap. 216 of the Laws of Hong Kong).*

In strict compliance with the relevant laws and regulations above, the Group has formulated internal policies that define the duties of each department of the Group in relation to its construction projects and regulate its procedures in relation to the management of construction work. Specifically, the project management centre (工程管理中心) and the construction project supervision department (項目工程監理部) of the Group are two principal business units that hold the responsibilities for:

a. Overseeing and leading construction projects from conception to completion;
b. Reviewing and adjusting the construction projects to manage deliverables and control budgets; and
c. Monitoring and supervising the entire operational process to ensure strict compliance with the local and national building and safety regulations.

** English name is translated for identification purpose only*

Environmental, Social and Governance (ESG) Report 2018

In accordance with the national standards in the PRC, such as GB/T 19001-2016 (質量管理體系要求) and GB/T 24001-2015 (環境管理體系要求及使用指南), the Group acts in conformity with its internal policies including 'Engineering Construction Supervision Manual'* (工程建設監理工作手冊), 'Rules on Engineering Quality Management'* (工程質量管理細則) and 'Rules on Project Schedule Management'* (工程進度管理細則) to maintain a sound working environment and make sure that reliable and high-quality construction work could be delivered to its clients. Specifically, as the Group places great importance to the safety of the properties it builds and their occupants, it is committed to controlling the input of construction materials in compliance with its internal policy 'Operating Standard of Product Inspection'* (產品檢測作業標準) and has adopted the use of sampling techniques to detect any potentially hazardous substances in the construction materials used in all phases of its projects. Once any unqualified product is discovered, the quality control ("QC") department of the Group will lead an investigation and address the problem as soon as possible following the requirements and procedures in its internal policy 'Control Procedure of Non-conforming Products'* (不合格產品控制程序). Furthermore, the chief supervision engineer of each project is required to possess the appropriate level and sufficient number of years of work experience and hold the certificate of Certified Supervision Engineer* (全國註冊監理工程師) as may be required, in accordance with the size and complexity of the project.

The marketing service centre of the Group is responsible for the collection of customers' complaints. Once any complaint is received, the QC department of the Group will follow up the entire investigation to make sure that substantiated complaints can be dealt with effectively.

The Group has abided by the laws and regulations in relation to customer privacy and implemented an internal policy, 'Confidentiality Management and Regulations'* (保密管理規定), to ensure that its customers' rights are strictly protected. Information collected by the Group from its customers would be used only for the purpose for which it has been collected. In FY2018, there were no substantiated complaints received by the Group concerning the breach of customer privacy and the loss of customer data.

Real Estate Awards in FY2018


Houses of Highest Quality with Investment Value

October Gold House Type in 2018

Online Celebrity Popular Houses

Annual Quality Houses

October Gold Houses in 2018

Annual Popular Houses

** English name is translated for identification purpose only*

The Group has been committed to ensuring that the sales and marketing departments of the Group provide precise product descriptions and information (including the labelling of its products and services) that comply with the relevant local laws and regulations to its customers. Any misrepresentation in marketing materials or exaggeration of offerings is strictly prohibited. The Group has a legal counsel to review the sales and marketing materials before releasing them to the public. The purpose of the review by the legal counsel is to prevent violations of the relevant advertising-related laws and regulations.

B.7. Anti-corruption

To maintain a fair, ethical and efficient working environment, the Group abided by the local laws and regulations relating to anti-corruption and bribery, irrespective of the region in which the Group operates, including the Anti-Corruption Law of the People's Republic of China* (中華人民共和國反腐敗法), the Law of the People's Republic of China on Anti-money Laundering* (中華人民共和國反洗錢法), the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615 of the Laws of Hong Kong), and the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong).

The Group has formulated and strictly enforced its sales-related policies, such as 'Implementation Rules on Sales Management'* (銷售管理實施細則), to prevent any illegal practices, including corruption, extortion and money-laundering within the Group. The Group prohibits all forms of bribery and corruption, and requires all its employees to follow the relevant codes of professional ethics. All employees are expected to discharge their duties with integrity, to act fairly and professionally, and to abstain from engaging in bribery or any activities which might exploit their positions against the Group's interests. During the year under review, no legal cases regarding corrupt practices were brought against the Group or any of its employees.

A uniquely developed protocol called 'Sunshine Service Convention'* (「陽光服務公約」) has been adopted by the Group, which clearly interprets the duties of the Group's salespersons and defines what an improper sales behaviour is, with an aim to eliminate any corrupt, bribery and fraudulent practice in the Group's business transactions. Under this convention, the Group has been dedicated to developing a lawful and transparent property sales environment and establishing a trustworthy relationship with its customers through its standard management, strict regulations and straight dealing.

Whistle-blowers can report verbally or in writing to the audit committee of the Company for any suspected misconduct with full details of the incidents and supporting evidence. The audit committee of the Company will conduct investigations against any suspicious or illegal behaviour to protect the Group's interests. The Group has established an effective grievance mechanism to protect the whistle-blowers from unfair dismissal or victimisation. Where any crime is suspected by the Group, a report will be submitted promptly to the relevant regulators or law enforcement authorities when the management of the Group considers it necessary.

In FY2018, the Group was not in violation of any relevant laws and regulations in relation to bribery, extortion, fraud and money laundering that have a significant impact on the Group.

** English name is translated for identification purpose only*

COMMUNITY

B.8. Community Investment

As a corporate citizen, the Group is fully aware of the importance of making a positive contribution to the communities in which the Group operates, and always gives top priority to the interests of these communities. In particular, it is the Group's policy to focus on the sponsorship of social welfare activities, engagement in community care projects and promotion of local ecological civilisation. For instance, the Group participated in a tree planting activity in the Sculpture Park of Baiyun Mountain in Guangdong province in FY2018, in which 40 trees were planted by the employees of the Group. The Group hopes that all its employees could have their awareness of environmental protection enhanced through this meaningful event and more importantly, will be inspired to make more contributions to the society and environment in the future.

BIOGRAPHY OF DIRECTORS

The Board currently comprises nine Directors, six of whom are executive Directors and three of whom are independent non-executive Directors.

EXECUTIVE DIRECTORS

Mr. Chu Hing Tsung (alias Zhu Qing Yi) ("Mr. Chu HT"), aged 49, is the chairman of the Company ("Chairman") and an executive Director. He has been appointed as an executive Director since September 2009 and he was appointed as the chief executive officer of the Company ("Chief Executive Officer") on 9 September 2009. In February 2010 he was appointed as a deputy chairman of the Company ("Deputy Chairman"). In December 2013, he was re-designated as the Chairman. With effect from 21 August 2015, Mr. Chu HT has resigned as the Chief Executive Officer. Mr. Chu HT is a shareholder of Rong De, the controlling shareholder of the Company. Mr. Chu HT has over 20 years of extensive experience in corporate management and property development in the PRC. He is the younger brother of Mr. Chu Muk Chi, an executive Director. Mr. Chu HT has been appointed as a non-executive director, the chairman of the board of directors and the chairman of the nomination committee of Silver Grant with effect from 29 January 2019.

Mr. Liu Jie ("Mr. Liu"), aged 55, was appointed as an executive Director and the Chief Executive Officer on 17 March 2017. He obtained a degree of Bachelor of Science from the Guangzhou Teachers College* (廣州師範學院) (now known as Guangzhou University) in 1985. Mr. Liu was a Deputy Mayor (副區長) of the People's Government of Haizhu District of Guangzhou Municipality of the PRC (廣州市海珠區人民政府) from November 2006 to April 2015 and the Mayor (區長) of the People's Government of Liwan District of Guangzhou Municipality of the PRC (廣州市荔灣區人民政府) from April 2015 to September 2016. Mr. Liu has over 20 years of experience in administrative and operation management in the PRC.

Mr. Liao Tengjia ("Mr. Liao"), aged 55, is a Deputy Chairman and an executive Director. He was appointed as the Chairman and an executive Director in September 2009 and a director of certain subsidiaries of the Group. In December 2013, Mr. Liao resigned as the Chairman. With effect from 21 August 2015, Mr. Liao has been appointed as the Chief Executive Officer. With effect from 17 March 2017, Mr. Liao has resigned as the Chief Executive Officer and was appointed as a Deputy Chairman. Mr. Liao is a shareholder and the sole director of Rong De, the controlling shareholder of the Company. He has over 20 years' management experience in the property development industry in the PRC.

Mr. Huang Jiajue ("Mr. Huang"), aged 48, is a Deputy Chairman, an executive Director and a member of each of the nomination committee and the remuneration committee of the Company. He has been appointed as an executive Director since September 2009 and a director of certain subsidiaries of the Group. With effect from 21 August 2015, Mr. Huang has been appointed as a Deputy Chairman. Mr. Huang obtained a Master's Degree in Business Administration from the Sun Yat-Sen University in the PRC. He has over 20 years of financial management experience in the property development industry in the PRC. Mr. Huang has been appointed as an executive director, a member of the remuneration committee and an authorised representative of Silver Grant with effect from 29 January 2019.

Mr. Chu Muk Chi (alias Zhu La Yi) ("Mr. Chu MC"), aged 61, has been appointed as an executive Director since September 2009. He obtained a Bachelor's Degree in Medicine from the Guangzhou College of Traditional Chinese Medicine (now known as Guangzhou University of Chinese Medicine). Mr. Chu MC has over 20 years of extensive experience in corporate management, Chinese medicine and property development in the PRC. He is the elder brother of Mr. Chu HT, the Chairman and an executive Director.

Ms. Ye Lixia ("Ms. Ye"), aged 54, was appointed as an executive Director on 17 June 2015. Ms. Ye obtained a Master's Degree in Economics from the Sun Yat-Sen University in the PRC in 1989. Before joining the Company, Ms. Ye served as the General Manager of the Investment and Finance Management Centre of Guangdong Pearl River Investment Holdings Limited* (廣東珠江投資股份有限公司) from July 2007 to April 2015. She has over 9 years of financial management experience in the property development industry in the PRC.

** English name is translated for identification purpose only.*

BIOGRAPHY OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Wo Ping ("Mr. Leung") *JP*, aged 75, has been appointed as an independent non-executive Director since October 2009. He is also the chairman of the audit committee of the Company, and a member of each of the nomination committee and the remuneration committee of the Company. Mr. Leung is a certified public accountant with extensive experience in Hong Kong tax and international tax planning for over 30 years. Currently, he is a senior advisor to Crowe Horwath (HK) CPA Limited. Mr. Leung is a fellow member of The Institute of Chartered Accountants in England and Wales, The Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors. Apart from his professional work, Mr. Leung has actively participated in community affairs. He had been a Regional Councillor for 5 years and a District Councillor for 18 years. Mr. Leung is currently a Councillor of the New Territories Heung Yee Kuk. He also serves as a member of United Christian Nethersole Community Health Service Management Committee. Mr. Leung was awarded a Badge of Honour by Her Majesty Queen Elizabeth II in 1994 for his service to the community. He was a District Advisor to the Hong Kong Branch of Xinhua News Agency before 1997. He was also appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2000. Mr. Leung was an independent non-executive director of Heng Xin China Holdings Limited (a company listed on GEM of the Stock Exchange with stock code: 8046) from August 2009 to June 2016.

Mr. Wong Chi Keung ("Mr. Wong"), aged 64, has been appointed as an independent non-executive Director since June 2012. He is also the chairman of each of the nomination committee and the remuneration committee of the Company, and a member of the audit committee of the Company. He holds a Master's Degree in Business Administration from the University of Adelaide in Australia. He is a fellow member of each of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia, and an associate member of each of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants.

Mr. Wong has over 35 years of experience in finance, accounting and management. He was a Responsible Officer for asset management, advising on securities and advising on corporate finance for Greater China Capital Limited under the Securities and Futures Ordinance ("SFO") from 23 March 2010 to 16 April 2016. Mr. Wong was a director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited (a company listed on the Main Board of the Stock Exchange with stock code: 0123, which is now known as Yuexiu Property Company Limited), for over 10 years.

Mr. Wong was an independent non-executive director of FU JI Food and Catering Services Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 1175 and provisional liquidators appointed from 19 October 2009 to 2 July 2013, and now known as Fresh Express Delivery Holdings Group Co., Ltd.), for the period from 22 November 2004 to 24 June 2011. He was also an independent non-executive director and a member of each of the audit committee and the remuneration committee of First Natural Foods Holdings Limited ("First Natural Foods") (a company listed on the Main Board of the Stock Exchange with stock code: 1076 with provisional liquidators appointed from 6 January 2009 to 4 September 2012, which is now known as Imperial Pacific International Holdings Limited) for the period from 26 November 2007 to 20 November 2013, and a member of the nomination committee of First Natural Foods from 4 September 2012 to 20 November 2013. Mr. Wong had been an independent non-executive director of PacMOS Technologies Holdings Limited ("PacMOS") (a company listed on the Main Board of the Stock Exchange with stock code: 1010, which is now known as PacRay International Holdings Limited) since August 1995, and he ceased to be an independent non-executive director and the chairman of each of the audit committee, remuneration committee and nomination committee of PacMOS with effect from 1 July 2014. He was an independent non-executive director of ENM Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 0128) from 17 June 2010 to 9 June 2017. He was also an independent non-executive director of Heng Xin China Holdings Limited (a company listed on GEM of the Stock Exchange with stock code: 8046) from 17 October 2016 to 19 September 2017. He was an independent non-executive director of China Shanshui Cement Group Limited (a company listed on the Main Board of the Stock Exchange with stock code: 0691) from 2 February 2016 to 23 May 2018.

Mr. Wong is currently an independent non-executive director of Asia Orient Holdings Limited (stock code: 0214), Asia Standard International Group Limited (stock code: 0129), Century City International Holdings Limited (stock code: 0355), China Ting Group Holdings Limited (stock code: 3398), Fortunet e-Commerce Group Limited (stock code: 1039), Golden Eagle Retail Group Limited (stock code: 3308), Nickel Resources International Holdings Company Limited (stock code: 2889), Paliburg Holdings Limited (stock code: 0617), Regal Hotels International Holdings Limited (stock code: 0078), TPV Technology Limited (stock code: 0903) and Yuan Heng Gas Holdings Limited (stock code: 0332). All of the companies above are listed on the Main Board of the Stock Exchange. Mr. Wong is also a Responsible Officer for asset management and advising on securities of CASDAQ International Capital Market (HK) Company Limited under the SFO.

Dr. Feng Ke ("Dr. Feng"), aged 47, was appointed as an independent non-executive Director on 17 June 2015. He is also a member of the audit committee of the Company. He graduated from the Guangdong University of Finance* (廣東金融學院) (previously known as Guangdong Academy of Finance* (廣州金融高等專科學校)) majoring in International Finance in July 1993. Dr. Feng obtained a Master's Degree in Economics from the Guangdong Academy of Social Sciences* (廣東省社會科學院) in July 1999. He obtained a Doctor's Degree in Economics from the Peking University* (北京大學) in July 2002. He was the assistant manager of Golden Eagle Asset Management Co., Ltd.* (金鷹基金管理有限公司) from July 2002 to January 2006. Dr. Feng was an independent director of Sichuan Guang'an AAA Public Co., Ltd* (四川廣安愛眾股份有限公司) (a company whose shares are listed on the Shanghai Stock Exchange with stock code: 600979) from November 2011 to September 2014, and an independent director of Nan Hua Bio-medicine Co., Ltd.* (南華生物醫藥股份有限公司) (previously known as Beijing CCID Media Investments Co., Ltd* (北京賽迪傳媒投資股份有限公司)), a company whose shares are listed on the Shenzhen Stock Exchange with stock code: 000504) from December 2013 to December 2014. He had also been an independent director of Guangdong Provincial Expressway Development Co., Ltd.* (廣東省高速公路發展股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code: 000429) from June 2009 to April 2016, and an independent director of Tande Co., Ltd.* (天地源股份有限公司), a company listed on the Shanghai Stock Exchange with stock code: 600665, from December 2009 to December 2015. Dr. Feng was an independent non-executive director of Yingde Gases Group Company Limited (whose listing of shares on the Main Board of the Stock Exchange with stock code: 2168 was withdrawn on 21 August 2017) from November 2016 to March 2017. He was an independent non-executive director of Asian Capital Resources (Holdings) Limited (a company listed on GEM of the Stock Exchange with stock code: 8025) from October 2008 to August 2013 and has been re-designated as an executive director since 1 September 2013. Dr. Feng was an independent director of China Greatwall Technology Group Co., Ltd.* (中國長城科技集團有限公司) (previously known as China Great Wall Computers Shenzhen Co., Ltd.* (中國長城計算器深圳股份有限公司)) (a company listed on the Shenzhen Stock Exchange with stock code: 000066) from 30 August 2010 to 3 April 2018. Dr. Feng is currently an independent director of each of Shenzhen Success Electronics Co., Ltd. * (深圳市宇順電子股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code: 002289) and Tianjin Guangyu Development Co., Ltd.* (天津廣宇發展股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code: 000537). He is also currently an independent non-executive director of China Huirong Financial Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 1290).

SENIOR MANAGEMENT

The six Directors holding executive offices above are directly responsible for the various businesses of the Group. They are regarded as members of the senior management of the Group.

** English name is translated for identification purpose only.*

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance. The Company firmly believes that a good, solid and sensible framework of corporate governance will allow the Company to run its business in the best interest of its shareholders as a whole. The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Code") as contained in Appendix 10 to the Listing Rules. Specific enquiry has been made of all Directors, who confirmed that they have complied with the required standards set out in the Code for FY2018.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the applicable code provisions set out in the CG Code then in force during FY2018, other than Code Provisions A.1.8 and E.1.2 of the CG Code.

Under Code Provision A.1.8 of the CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Directors did not have such insurance cover during the first seven months of FY2018 as the Company had been negotiating and reviewing proposed insurance plans, with an aim to securing an insurance plan appropriate for the Directors at reasonable costs. The Company has made arrangements for insurance cover to take effect from August 2018 for the Directors.

Code Provision E.1.2 of the CG Code requires that the chairman should attend the annual general meeting of the Company ("AGM"). Mr. Chu Hing Tsung (alias Mr. Zhu Qing Yi), the Chairman, did not attend the AGM held on 30 May 2018 ("2018 AGM") due to his prior engagement.

SECURITIES TRANSACTIONS BY MANAGEMENT AND STAFF

The management and staff have been individually notified and advised about the Code by the Company.

Financial Officer

The financial officer ("Financial Officer") of the Company is responsible for preparing the consolidated interim and annual financial statements of the Company based on accounting principles generally accepted in Hong Kong and ensuring that the consolidated financial statements truly reflect the Group's results and financial position, as well as in compliance with the disclosure requirements under the applicable provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Companies Ordinance"), the Listing Rules and other relevant laws and regulations. The Financial Officer reports directly to the chairman of the audit committee of the Company and coordinates with external auditors on a regular basis. In addition, the Financial Officer reviews the controls of financial risks of the Group and provides advice thereon to the Board.

Company Secretary

The company secretary ("Company Secretary") of the Company reports directly to the Chairman. All Directors have easy access to the Company Secretary and the responsibility of the Company Secretary is to ensure the board meeting procedures are properly followed and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for providing assistance to the Board with respect to the Directors' obligations on securities interest disclosure, and disclosure requirements on notifiable transactions, connected transactions and inside information. The Company Secretary provides assistance to the Board with respect to the Company's compliance with the laws, requirements and the Company's bye-laws ("Bye-Laws") as appropriate. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance so as to bring the best long-term value to the shareholders of the Company. In addition, the Company Secretary also assists in the provision of relevant information updates and continuous professional development to the Directors with respect to the legal, supervisory and other continuing obligations of being a director of a listed company as appropriate. The Company Secretary is also responsible for supervising and managing the investors' relations of the Group.

BOARD OF DIRECTORS

A. The Responsibilities of The Board

The principal functions of the Board are to consider, set and approve the strategies, financial objectives, annual budget, investment proposals, appointment and re-appointment of Directors, and accounting policies of the Group. The Board is responsible for performing the corporate governance functions set out in Code Provision D.3.1 of the CG Code. The Board also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems by the Group to manage these risks. The day-to-day operations of the Group are delegated to the management of the Group.

The Board reserves for its decision all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of the Directors and other significant financial and operational matters. The Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's management independently. The daily management, administration and operation of the Group are delegated to the management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

The Board recognises that corporate governance should be the collective responsibility of the Directors and the Board delegates the corporate governance duties to the management which include:

(i) to develop, review and implement the Company's policy and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

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

(iv) to develop, review and monitor the implementation of the Shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance Shareholders' relationship with the Company.

B. Board Composition and Diversity

As at 31 December 2018 and the date of this annual report, the Board consists of a total of nine Directors, comprising six executive Directors and three independent non-executive Directors. The independent non-executive Directors are expressly identified in all corporate communications that disclose the names of the Directors. The number of independent non-executive Directors during FY2018 and as at the date of this annual report represents one-third of the Board. The Company seeks to achieve board diversity through consideration of a number of factors, including but not limited to gender, age, skills, knowledge and length of service. The ultimate selection decision will be based on merit and contribution to the Board.

During FY2018, the Company adopted a board diversity policy, which sets out the Company's approach on achieving diversity on the Board. In reviewing and assessing the composition of the Board and the nomination of Directors (as applicable), the Company takes into account a number of factors, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. The Nomination Committee will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Board may adopt and/or amend from time to time (as applicable) such diversity perspectives and/or measurable objectives that are appropriate to the Company's business and Board succession planning, as applicable.

The Directors have professional background in property development, finance, taxation, investment and management. They have extensive experience and independent views in their respective areas of expertise so that they can provide professional advice to the Board in respect of the long-term development of the Company. The Company has formal letters of appointment with all Directors setting out the key terms and conditions relating to their appointment.

Mr. Chu Hing Tsung, the Chairman and an executive Director, and Mr. Chu Muk Chi, an executive Director, are brothers. The biographical details of the Directors and the relationships between Board members are set out in the section headed "BIOGRAPHY OF DIRECTORS" in this annual report. Save as disclosed above and in the section headed "BIOGRAPHY OF DIRECTORS" in this annual report, none of the Directors has any financial, business, family or other material/relevant relationships with one another and this is true in particular between Mr. Chu Hing Tsung, the Chairman, and Mr. Liu Jie, the Chief Executive Officer.

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

C. Chairman and Chief Executive Officer

The roles and duties of the Chairman and the Chief Executive Officer are carried out by different individuals and have been clearly defined in writing.

The Chairman is Mr. Chu Hing Tsung, and the Chief Executive Officer is Mr. Liu Jie. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balanced judgement of views.

With the support of the Company Secretary, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at the Board meetings and that all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems, internal procedures and processes for the Board's approval.

BOARD MEETINGS AND ANNUAL GENERAL MEETING

The Board meets regularly and as warranted by particular circumstances. Notices and agendas are prepared by the Company Secretary as delegated by the Chairman and distributed to the Board members within reasonable time before the meetings. Relevant meeting papers are also sent to the Directors well before the meetings, informing them of the background and giving explanation on matters to be brought before the Board. All Directors are given the opportunity to include matters in the agendas for Board meetings. Draft and final versions of the minutes of Board meetings are sent to all Directors for their comment and records, respectively, within a reasonable time after the Board meetings and are kept by the Company Secretary.

During FY2018, the Directors have made active contribution to the affairs of the Group and five Board meetings were held to consider, among other things, various transactions contemplated by the Group, and to review and approve the interim results and annual results of the Group. To ensure the Directors will make decisions objectively and in the interests of the Company, Bye-Law No. 103(1) of the Bye-Laws provides that any Director shall abstain from voting on any resolutions in which he/she or his/her associate(s) is/are materially interested nor be counted in the quorum of the meeting. Any Board meeting in which a Director has abstained from voting or has not been counted in the quorum of the meeting shall not be taken into account in determining that Director's attendance record.

The individual attendance of each Director in the Board meetings held during FY2018 and in the 2018 AGM and special general meetings is as follows:

	Attended/Eligible to attend		
	Board meetings	**2018 AGM**	**Special General Meetings**
Executive Directors			
Mr. Chu Hing Tsung	3/5#	0/1	0/2
Mr. Liu Jie	4/4	0/1	1/2
Mr. Liao Tengjia	2/4	1/1	1/2
Mr. Huang Jiajue	4/4	0/1	0/2
Mr. Chu Muk Chi	0/4	0/1	0/2
Ms. Ye Lixia	4/4	1/1	2/2
Independent non-executive Directors			
Mr. Leung Wo Ping *JP*	5/5#	0/1	2/2
Mr. Wong Chi Keung	5/5#	1/1	2/2
Dr. Feng Ke	5/5#	0/1	2/2

Included a meeting between the Chairman and the independent non-executive Directors held during FY2018.

NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Each of the independent non-executive Directors has been appointed for a term of two years. All of the independent non-executive Directors are subject to retirement by rotation once every three years and should be subject to re-election.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director has been given a comprehensive, formal and tailored induction on appointment. A package, which has been compiled and reviewed by the Company's legal advisers, setting out the duties and responsibilities of directors under the Listing Rules, the Companies Ordinance, other related ordinances and relevant regulatory requirements of Hong Kong, is provided to each newly appointed Director.

Pursuant to Code Provision A.6.5 of the CG Code, the Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses to ensure that they are fully aware of their responsibilities and obligations under the Listing Rules and the relevant regulatory requirements.

Pursuant to the requirements of the CG Code, all Directors should provide their records of continuous professional development to the Company. According to the records provided by the Directors, the training received by each of them during FY2018 is summarised as follows:

	Training received
	Notes
Executive Directors	
Mr. Chu Hing Tsung	(1)(2)
Mr. Liu Jie	(1)(2)
Mr. Liao Tengjia	(1)(2)
Mr. Huang Jiajue	(1)(2)
Mr. Chu Muk Chi	(1)(2)
Ms. Ye Lixia	(1)(2)
Independent non-executive Directors	
Mr. Leung Wo Ping *JP*	(1)(2)
Mr. Wong Chi Keung	(1)(2)
Dr. Feng Ke	(1)(2)

Notes:

(1) Reading articles/other materials in relation to legal and regulatory changes which are relevant for the Directors in discharging their duties.

(2) Participation in seminars/conferences/courses/workshops on subjects relating to directors' duties, and financial, legal and corporate governance matters.

All Directors as disclosed above confirmed that they have complied with Code Provision A.6.5 of the CG Code on directors' continuous professional development during FY2018.

BOARD COMMITTEES

The Board has set up three specialised committees, namely the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee") to oversee particular aspects of the Company's affairs. The three Board committees were established with defined written terms of reference approved by the Board, which set out the major duties of each Board committee. These terms of reference are posted on the websites of the Stock Exchange and of the Company and are available to the Shareholders. Members of the Board committees are mainly independent non-executive Directors. The list of the chairman and members of each Board committee is set out in each of the following Board committee sections below in this annual report. The meeting procedures of each Board committee follow the procedures of the Board meetings.

The members of the Board committees are provided with sufficient resources to discharge their duties and in appropriate circumstances, the Company can retain external auditors, financial advisers and lawyers and other relevant independent professionals to provide independent professional advice to assist members of the Board committees in fulfilling their responsibilities.

A. Audit Committee

The Company established the Audit Committee in 1999 with specific written terms of reference in accordance with the requirements of the Stock Exchange which deal clearly with its authority and duties.

During FY2018 and as at the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Leung Wo Ping *JP*, Mr. Wong Chi Keung and Dr. Feng Ke. Mr. Leung Wo Ping *JP* is the chairman of the Audit Committee during FY2018 and as at the date of this annual report.

The major roles and functions of the Audit Committee are as follows:

(1) to consider, and to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the audit fee and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(2) to review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process in accordance with applicable standards;

(3) to discuss with the external auditor before the audit commences in respect of the nature and scope of the audit and reporting obligations;

(4) to monitor the integrity of the Company's financial statements, annual report, accounts and half-year report, and to review significant financial reporting judgements contained in them;

(5) to review the Company's financial controls and internal control and risk management systems, and to ensure that management has discharged its duty to establish an effective internal control system;

(6) to review the external auditor's management letter, and material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control as well as management's response to the points raised; and

(7) to ensure that the Board responds promptly to the matters raised by the external auditor in the management letter.

The Audit Committee shall meet with the external auditor without the presence of the executive Directors to discuss the Group's financial reporting and any major financial matters arising during the financial year at least twice a year.

The Audit Committee held three meetings during FY2018. Individual attendance of each committee member is set out below:

	Attended/ Eligible to attend
Independent non-executive Directors	
Mr. Leung Wo Ping *JP* (Chairman)	3/3
Mr. Wong Chi Keung	3/3
Dr. Feng Ke	3/3

During FY2018, the Audit Committee held three meetings with the external auditor to discuss the general scope of their audit work and the audit findings. The Audit Committee also reviewed the Group's annual audited results for FY2017 and unaudited interim results for the period ended 30 June 2018, and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made, and submitted them to the Board for approval. In addition, the Audit Committee also made a review of the effectiveness of the financial reporting, internal audit function, and risk management and internal control systems of the Group.

B. Remuneration Committee

The Company established the Remuneration Committee in September 2005 with specific written terms of reference in accordance with the requirements of the Stock Exchange which deal clearly with its authority and duties. The Remuneration Committee has adopted the approach under Code Provision B.1.2(c)(ii) of the CG Code and made recommendations to the Board on the Group's overall policy and structure of the remuneration of Directors and senior management.

During FY2018 and as at the date of this annual report, the Remuneration Committee comprises an executive Director, Mr. Huang Jiajue and two independent non-executive Directors, namely Mr. Wong Chi Keung and Mr. Leung Wo Ping *JP*. Mr. Wong Chi Keung is the chairman of the Remuneration Committee during FY2018 and as at the date of this annual report.

The major roles and functions of the Remuneration Committee are as follows:

(1) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(2) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(3) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payment (including any compensation payable for loss or termination of their office or appointment);

(4) to make recommendations to the Board on the remuneration of the non-executive Directors;

(5) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(6) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with relevant contractual terms and otherwise fair and not excessive;

(7) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and otherwise reasonable and appropriate; and

(8) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee held one meeting during FY2018. Individual attendance of each committee member is set out below:

	Attended/ Eligible to attend
Executive Director	
Mr. Huang Jiajue	1/1
Independent non-executive Directors	
Mr. Wong Chi Keung *(Chairman)*	1/1
Mr. Leung Wo Ping *JP*	1/1

The following is a summary of work performed by the Remuneration Committee during FY2018:

(a) reviewing and recommending the policy and structure of the remuneration of the Directors and senior officers of the Group to the Board;

(b) assessing individual performance of the Directors and senior officers of the Group; and

(c) reviewing specific remuneration packages of the Directors and senior officers of the Group with reference to the Board's corporate goals and objectives as well as individual performances.

The remuneration of the executive Directors, who are regarded as the senior management of the Group, by band for FY2018 is set out below:

HK$0 to HK$2,000,000	1
HK$2,000,001 to HK$4,000,000	4
Over HK$4,000,001	1
	6

The remuneration of the Directors is determined by reference to their qualifications, experience, duties and responsibilities, the Group's remuneration policy and the prevailing market trends. Neither the Chief Executive Officer nor any of the Directors has waived or agreed to waive any emoluments during the FY2018.

C. Nomination Committee

The Company established the Nomination Committee in September 2005 with specific written terms of reference in accordance with the requirements of the Stock Exchange which deal clearly with its authority and duties.

During FY2018 and as at the date of this annual report, the Nomination Committee comprises an executive Director, Mr. Huang Jiajue and two independent non-executive Directors, namely Mr. Leung Wo Ping *JP* and Mr. Wong Chi Keung. Mr. Wong Chi Keung is the chairman of the Nomination Committee during FY2018 and as at the date of this annual report.

The major roles and functions of the Nomination Committee are as follows:

(1) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(2) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorship;

(3) to assess the independence of the independent non-executive Directors; and

(4) 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 Officer.

The Nomination Committee selects and recommends candidates for directorship based on certain criteria and procedures. The major criteria include (i) the candidates' professional background, especially their experience in the industry in which the Group operates; (ii) their financial management experience and track record with other companies engaged in similar business as the Group's; and (iii) the recommendations from the management team and other knowledgeable individuals. The Nomination Committee will shortlist the candidates and then submit them to the Board for final approval.

CORPORATE GOVERNANCE REPORT

The Nomination Committee held one meeting during FY2018. Individual attendance of each committee member is set out below:

	Attended/ Eligible to attend
Executive Director	
Mr. Huang Jiajue	1/1
Independent non-executive Directors	
Mr. Wong Chi Keung (Chairman)	1/1
Mr. Leung Wo Ping *JP*	1/1

During the meeting held in FY2018, the Nomination Committee reviewed the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors coupling with the relevant requirements under the Listing Rules, and the suitability of the Directors who were subject to re-election at the AGM.

INTERNAL CONTROL

Risk Management and Internal Control

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems to safeguard the assets of the Group and interests of the Shareholders. The Board is clearly aware of the key role played by the Group's risk management and internal control systems in the Group's risk management and compliance with the laws and regulations on an on-going basis. The Group is aware of the responsibilities of the Board and the management over risk management and internal control systems:

- **The Board** is responsible for evaluating and determining the nature and extent of the risks the Group is willing to take in achieving its strategic business objectives, ensuring the Group establishes and maintains appropriate and effective risk management and internal control systems, and overseeing the management's design, implementation and monitoring of risk management and internal control systems on an ongoing basis.

- **The management** is responsible for the design, implementation and monitoring of the risk management and internal control systems and confirming to the Board whether or not the risk management and internal control systems are effective.

Such risk management and internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or losses.

The Audit Committee continuously reviews the Group's risk management and internal control systems. The Board also reviews the effectiveness of the Group's internal control systems on annual basis. Based on its review, the Audit Committee will provide advice to the Board as to the adequacy of the Group's risk management and internal control systems.

RISK MANAGEMENT

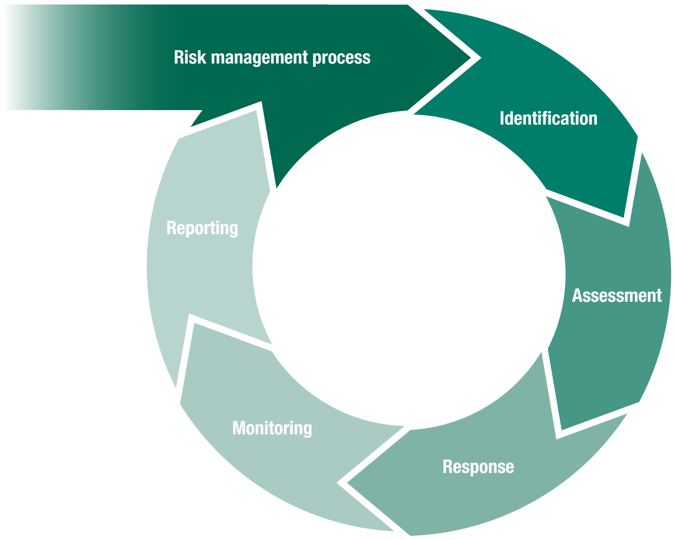
The Group has established a basic risk management structure in 2016 to specify the risk management process, and consciously enhanced the Group's risk management culture internally. For the past two years, the Group also continued to optimise the risk management structure, standardise risk management process, and adopt qualitative and quantitative risk management methodologies to identify, evaluate and mitigate risks, so as to promote sustainable and healthy business growth of the Group by keeping risks under control.

Construction of Risk Management System

- **Construction and update of basic risk management structure:** the Group has established an organisational structure and functions for risk management practices covering different levels, including decision-making level (the Board and the Audit Committee), leadership level (the Group's management) and implementation level (management of each function centre of the Group and the regional subsidiaries) over the past years. The duties and authorities of each level of decision-making, leadership and implementation are specified in writing and the Group's major risks are classified into different categories, including strategy, operation, market, finance and laws so as to create a risk database. During FY2018, the Group reviewed, updated and improved the above-mentioned basic structure based on changes in both internal and external environment. From the perspective of the Group's strategic objective and the management's risk appetite, appropriate risk assessment dimension and criteria as well as qualitative and quantitative approaches of assessment have been established. Meanwhile, approaches and criteria of assessment identified by the management together are used to assess and respond to risks likely to affect the achievement of the corporate target.

- **Establishment and regulation of risk management process:** the Group has established closed-loop procedures in respect of sustainable risk management, covering the identification, assessment, response, monitoring and reporting (see Chart 1: Major Steps of Risk Management Process), in addition to risk management procedures and tools used to support the implementation of such procedures. The Board analyses and prioritises risks identified to determine key risks exposed to the Group and discusses how to manage such key risks. Besides, existing risk mitigation measures are identified and recorded against each significant risk, with improvement suggestions being made based on the management's risk appetite. During FY2018, the Group reviewed, adjusted and improved the risk management process to improve the efficiency and standardisation of its operations.

CORPORATE GOVERNANCE REPORT



(Chart 1: Major Steps of Risk Management Process)

Risk Assessment Performed by the Group in 2018

On the basis of the above construction of risk management systems at the group level, the management of the Group continued to strengthen its risk management with the assistance from an external consultant during FY2018, and updated and assessed the top 10 risks of the Group in FY2018.

- **Updating and assessing the top 10 risks of the Group:** in view of the external market environment, changes in the internal business environment, the business operation and risk appetite of the Group, the management of the Group updated the risk assessment standards and risk database during FY2018. Meanwhile, it reviewed the change in nature and degree of significant risks exposed to the Group by using a systematic approach of assessment, reassessed the top ten risks exposed to the Group and studied the tendency of such change as compared with that of FY2017. The current governance and control measures were reviewed to determine the department responsible for control of the relevant risks as well as the corresponding response measures and improvement plans. Results of the assessment and implementation of the governance and control measures were reported to the Audit Committee, which, on behalf of the Board, reviewed and assessed the change in nature and degree of the significant risks and considered that the risk management systems were effective and adequate upon review of such systems.

In the years to follow, the management of the Group will continue to strengthen the risk management systems through various measures, including on-going risk management training, regular risk alert and risk management reporting, and will perform review and assessment of the responses to significant risks at least annually and report the results to the Audit Committee.

Internal Audit

The Company has established an internal audit function as an independent third line of defence, which is responsible for assisting the Audit Committee in making analysis and independent assessment of the adequacy and effectiveness of the Group's risk management and internal control systems. The Board has reviewed the resources and staff qualifications and experiences of the internal audit function, and considered that the budget and the training received by the internal audit staff were adequate during the FY2018.

Internal Control

Construction of Internal Control Management Framework

The Company has established its own internal control framework by reference to the internal control management framework from the COSO (Committee of Sponsoring Organisations of the Treadway Commission) (see Chart 2: Internal Control Management Framework from the COSO). The Group's risk management system consists of five elements, i.e. control environment, risk assessment, control activity, information and communication, and monitoring activity, which are related to, interacting with and relying on each other, and collectively safeguard the performance of the Group's internal control function. An established organisational structure is included in such control systems, clearly defining the power and obligations of each department, in order to protect the Group's assets against improper use, maintain appropriate accounts and ensure compliance with rules and regulations. The scope of review covers significant controls, including controls over operations and risk management. Annual review of the effectiveness of the risk management and internal control systems has been performed with reference to the COSO framework.

(Chart 2: Internal Control Management Framework from the COSO)

Review of Internal Control Performed by the Group in 2018

On the basis of the above internal control management framework of the Group, the management of the Group engaged an external consultant to support the internal control review in FY2018 to ensure that the operation and management of the Group and its subsidiaries were in compliance with laws and regulations as well as regulatory requirements. Based on the changes in risk conditions and control environment, the management of the Group selected key business processes for review, assessed the adequacy and effectiveness of existing control activities, determined major risks and existing control defects, and identified the key departments responsible for control defects and the following response measures and improvement plans. The results of assessment were reported to the Audit Committee.

Review of Risk Management and Internal Control Systems

The Board has, through the Audit Committee, performed an overall review of the effectiveness of the Group's risk management and internal control systems for FY2018, considering changes in the nature and degree of significant risks exposed to the Group, as well as the Group's capability of responding to changes in its business and external environment. The management has continued monitoring the scope and quality of the risk and internal control systems and the work performed by the internal audit function, and has prepared the reports provided to the Audit Committee. The Board considered the Group has complied with the provisions relating to internal control set out in the CG Code and the risk management and internal control systems were effective and adequate during FY2018.

INSIDE INFORMATION

The Company takes every precaution in its handling of inside information. The Company regulates the handling and dissemination of inside information according to the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding inside information. Also, the Company keeps the Directors, management and employees abreast of the latest regulatory updates. Employees who are privy or have access to inside information have also been notified to observe the restrictions regarding the handling and dissemination of inside information from time to time. The Board is generally responsible for ensuring that the Company complies with its disclosure obligations regarding inside information. Inside information should be disclosed by way of an announcement in accordance with the requirements of the SFO and the Listing Rules. Before relevant information is fully disclosed to the public, the Board will ensure that such information is kept strictly confidential.

CORPORATE GOVERNANCE FUNCTIONS

The Company is committed to enhancing its corporate governance practices relevant to the model and growth of its business. In order to achieve a right balance between governance and performance, the Board is responsible for introducing and proposing relevant principles concerning corporate governance so as to enhance the standard of corporate governance of the Company. The Board is responsible for performing the corporate governance functions set out in Code Provision D.3.1 of the CG Code and has established the following corporate governance duties to serve this purpose:

(1) develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(2) review and monitor the training and continuous professional development of the Directors and management;

(3) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(4) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(5) review the Company's compliance with the CG Code and disclosure in the corporate governance report in the Company's annual report.

There was no meeting held by the Board in respect of its corporate governance functions during FY2018. However, the Company has from time to time provided updated information to the Directors and management on the relevant rules and regulations relating to corporate governance, ensuring that they have a proper understanding of the latest development of the best corporate governance practice.

AUDITOR'S REMUNERATION

PricewaterhouseCoopers has resigned as the auditor of the Company with effect from 23 November 2018. At the special general meeting of the Company held on 21 December 2018, Ernst & Young was appointed as the auditor of the Company.

For FY2018, the aggregate remuneration paid/payable to PricewaterhouseCoopers and Ernst & Young for their audit and non-audit services provided, is set out as follows:

Nature of services	**Fee paid/payable** HK$'000
Audit services	4,500
Non-audit services	
— Being reporting accountant for corporate exercises	3,200
— Interim review	1,300
— Internal control services	710
— Financial due diligence services	2,800
— Others	30
Total	12,540

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility of preparing the financial statements for FY2018, which were prepared in accordance with statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgement and estimates made are prudent and reasonable.

In respect of Code Provision C.1.3 of the CG Code, the Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The reporting responsibilities of the external auditor on the consolidated financial statements are set out in the "Independent Auditor's Report" on pages 104 to 110 of this annual report.

SHAREHOLDERS' RIGHTS

DIVIDEND POLICY

The Company has adopted a dividend policy during FY2018.

The Company does not have any pre-determined dividend pay-out ratio. The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Bye-laws, all applicable laws and regulations and the following factors:

1. financial results;
2. cash flow situation;
3. business conditions and earnings;
4. capital requirements and expenditure plans;
5. interests of Shareholders;
6. any restrictions on payment of dividends; and
7. any other factors that the Board may consider relevant.

The dividend policy of the Company will be reviewed by the Board as appropriate from time to time.

The Company treats all Shareholders equally and ensures that Shareholders' rights are protected and every convenience is provided to the Shareholders for them to exercise their rights in ways that they are entitled to. The memorandum of association of the Company ("Memorandum of Association") and the Bye-Laws set out the rights of the Shareholders.

(1) Rights and procedures for Shareholders to convene special general meeting ("SGM")

Pursuant to Bye-Law No. 58 of the Bye-Laws, Shareholders holding not less than one-tenth of the paid-up capital of the Company and carrying the right of voting at general meetings may request the Company to convene a SGM by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition. The requisition must be signed by the requisitionists and deposited at the Company Secretary at the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Before convening the SGM, the request will be verified with the Company's share registrar in Bermuda or the Hong Kong branch share registrar with their confirmation that the request is proper and in order.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, i.e. Shareholders holding not less than one-twentieth of the paid-up capital of the Company, may themselves convene a meeting in accordance with the requirements and procedures set out in Sections 74(3) and 74(4) of the Bermuda Companies Act 1981 (as amended), but any meeting so convened shall not be held after the expiration of three months from the said date.

(2) Rights and procedures for Shareholders to make proposals at general meetings

(i) Rights and procedures for proposing a person for election as a Director at a general meeting are as follows:

Pursuant to Bye-Law No. 88 of the Bye-Laws, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected including that person's biographical details as required by Rule 13.51(2) of the Listing Rules, shall have been lodged at the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong, or at the Hong Kong branch share registrar provided that the minimum length of the period, during which such notice is given, shall be at least 7 days before the date of the general meeting.

If the notice is submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notice shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

If the notice is received less than 10 business days prior to the date of such general meeting, the Company will need to consider the adjournment of such general meeting in order to allow Shareholders 14 days' notice (the notice period must include 10 business days) of the proposal.

The procedures for Shareholders to propose a person for election as a Director is posted on the Company's website (www.zhuguang.com.hk).

CORPORATE GOVERNANCE REPORT

(ii) Rights and procedures for proposing resolution to be put forward at a general meeting are as follows:

Pursuant to Sections 79 and 80 of the Bermuda Companies Act 1981 (as amended), (i) shareholders holding not less than one-twentieth of the total voting rights; or (ii) not less than 100 shareholders, are entitled to request the company to give shareholders notice of a resolution which is intended to be moved at the next annual general meeting or special general meeting. If any Shareholders wish to propose a resolution to be put forward at a general meeting of the Company, a written notice to that effect signed by the requisitionists with contact information must be deposited at the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong (addressed to the Company Secretary). The notice shall contain, inter alia, a description of the proposed resolution desired to be put forward at the meeting, the reasons for such a proposal and any material interest of the proposing Shareholder in such a proposal. The request will be verified with the Company's share registrar in Bermuda or the Hong Kong branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the proposal raised by the Shareholders concerned at the AGM or the SGM varies according to the nature of the proposal, the details of which are as follows:

- At least 14 days' notice (the notice period must include 10 business days) in writing if the proposal constitutes an ordinary resolution of the Company in SGM.
- At least 21 days' notice (the notice period must include 20 business days) in writing if the proposal constitutes an ordinary resolution of the Company in AGM or a special resolution of the Company in AGM or SGM.

In the event of failure in serving the notice to the Company by the requisitionist within reasonable time, the Company reserves the right to claim from the requisitionist any expenses incurred by the Company in serving the notice of the resolution and circulating the statement given by that requisitionist to all Shareholders in accordance with the requirements under the Listing Rules (unless the Company otherwise resolves).

The rights and procedures for proposing resolution to be put forward by Shareholders at a general meeting is posted on the Company's website (www.zhuguang.com.hk).

(3) Procedures to send enquiries to the Board

Any enquiry is welcome to be presented to the Board by the Shareholders and any proposal relating to the business, strategy and management of the Company is welcome to be presented at general meeting for review and discussion. Such enquiry or proposal can be submitted in writing with contact information and deposited at the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong (addressed to the Company Secretary).

COMPANY SECRETARY

Pursuant to the requirements of Rule 3.29 of the Listing Rules, the Company Secretary, Mr. Chan Chit Ming Joeie confirmed that he had taken no less than 15 hours of relevant professional training during FY2018.

MEMORANDUM OF ASSOCIATION AND BYE-LAWS

During FY2018, the Company has not made any changes to its Memorandum of Association or Bye-Laws. An up-to-date version of the Memorandum of Association and Bye-Laws is available on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.zhuguang.com.hk).

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with the Shareholders. Information in relation to the Company is disseminated to the Shareholders in a timely manner through a number of formal channels, which include the interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information are also made available on the website of the Company (www.zhuguang.com.hk).

The AGM provides a useful platform for the Shareholders to exchange views with the Board. The Chairman and the chairman of each committee of the Board are available at the AGM to answer questions from the Shareholders in respect of the matters that they are responsible and accountable for. The external auditor is also available at the AGM to assist the Directors in addressing any relevant queries from the Shareholders. To ensure the Board is maintaining an ongoing dialogue with the Shareholders, the Shareholders are encouraged to attend the AGM or other general meetings of the Company. The AGM notice is sent to the Shareholders at least 20 clear business days before the AGM. The notice is also published on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.zhuguang.com.hk). Separate resolutions are proposed at the general meetings on each substantially separate issue. A Shareholder is permitted to appoint any number of proxies to attend and vote on his behalf. All resolutions put forward at shareholders' meetings of the Company will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange and of the Company immediately after the relevant general meetings.

To ensure effective communication with the Shareholders, the Company highly values any opinion from the Shareholders. Comments and suggestions are welcome and can be addressed to the Company by mail to the Company's Hong Kong office at Room 5702-5703, 57/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

DIRECTORS' REPORT

The Directors herein submit their report together with the audited consolidated financial statements of the Group for FY2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 1.1 to the consolidated financial statements.

Further discussion and analysis of the business review required by Schedule 5 to the Companies Ordinance, including an analysis on the Group's financial key performance indicators, an indication of the likely future developments in the Group's business, employment policy of the Group and subsequent events of the Company occurring after the end of FY2018, can be found in the "Chairman's Statement" and the "Management Discussion and Analysis" set out on pages 5 to 26 of this annual report. These discussions form part of this "Directors' Report".

The financial risk management objectives and policies of the Group are shown in note 45 to the consolidated financial statements.

An analysis of the Group's performance during FY2018 using key financial performance indicators is set out in the Five-Year Financial Summary on page 219 of this annual report.

The Group is committed to building a better environment by adopting an environmentally-friendly approach in its business operations. The Group is also committed to complying with all applicable environmental laws and regulations in conducting its business. The Group aims to reduce emissions and use of resources in its operation through the following measures:

- Enhance the efficiency of the resources used in the Group's business operations;
- Adopt the use of energy-efficient equipment across the Group's properties and offices;
- Encourage employees to minimise their daily use of resources, such as electricity;
- Encourage contractors and/or service providers to adopt environmentally-friendly practices in their design, services and products; and
- Undertake property development projects which are conducive to environmental protection and to obtain environmental certification on such projects.

During FY2018, the Group has made improvements in energy saving and emission reduction by adopting measures, which included replacing ordinary light bulbs with energy-saving ones, regularly upgrading and maintaining air-conditioning systems and equipment, and using recycled papers.

Further information about the Company's environmental policies and performance can be found in the ESG Report on pages 27 to 52 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was incorporated in Bermuda with its shares listed on the Main Board of the Stock Exchange. The Group's subsidiaries were incorporated in the British Virgin Islands, Hong Kong and the PRC. The Group's operations are mainly carried out by the Group's subsidiaries in the PRC while the Group also has a corporate and administrative office in Hong Kong.

The Group's principal business activity is property development in the PRC which is a highly regulated industry. Property developers in the PRC must abide by various laws and regulations in the country, including rules stipulated by the national and local governments. To engage in property development, the Group must apply to the relevant government authorities to obtain and renew various licenses, permits, certificates and approvals, including but not limited to, land use rights certificates, qualification certificates for property developers, construction work commencement permits, construction work planning permits, construction land planning permits and pre-sales permits. Before the government authorities issue or renew any such certificate or permit, the Group must meet the relevant requirements. Set out below is a summary of certain aspects of PRC legal and regulatory provisions relating to the Group's operations and business, which include laws and regulations relating to:

- Establishment and qualification of real estate development, including the City Real Estate Management Regulation*《城市房地產管理法》, the PRC City Planning Regulation*《中華人民共和國城鄉規劃法》, the PRC Construction Regulation*《中華人民共和國建築法》and the City Real Estate Development Operation Management Rules*《城市房地產開發經營管理條例》; and

- Sale of commodity properties, including the City Commodity Properties Pre-Sale Management Regulation*《城市商品房預售管理辦法》.

If there is any non-compliance with the above rules and regulations, it will affect the Group's operations, development and financial performance. During FY2018, the Group complied with all the relevant laws and regulations in Bermuda, the British Virgin Islands, the PRC and Hong Kong that have a significant impact on the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, the summary of which is as follows:

Fierce industry competition

The fierce competition among property developers in China may lead to the increase in acquisition costs of land and construction costs in prime locations in China, oversupply of properties, decrease in price of the properties and slower approval and review of new property development projects by the relevant government authorities as well as the increase in the costs of human resources, all of which have an adverse impact on the business operations and profit of the Group.

Fluctuation of exchange rates

As the focus of the Group's operations is in China, most revenue and expenses of the Group are denominated in RMB. The exchange rates of the RMB against the US$ and other foreign currencies may fluctuate and may be affected by, among other things, the policies of the PRC Government and changes in the PRC's and international political and economic conditions. Fluctuations in the exchange rates will affect the results of operations of the Group. As the 2016 Senior Notes and the 2017 Senior Notes are denominated in US$, the depreciation of RMB, if any, will further increase the finance costs of the Group.

** English name is translated for identification purpose only*

Fluctuation of interest rates

Interest-bearing debts are one of the primary financing sources for the Group to fund its operations. Part of the Group's loans are RMB-denominated and obtained from banks in the PRC, and carry floating interest rates. Thus, any adjustments in the interest rates made by the People's Bank of China will affect the finance costs of the Group.

External contractors and suppliers

In the event that the performance of the external contractors and suppliers entrusted by the Group falls short of the standards of the Group, or they encounter financial, operational or managerial difficulties, there may be disruption to the construction progress of the Group's property developments, and the Group may need to incur additional costs and may be potentially liable for compensation payable to the customers for delay in completion of property development and delivery of the properties.

SEGMENT INFORMATION

An analysis of the performance of the Group by reportable segments is set out in note 4 to the consolidated financial statements.

DIVIDENDS

The Directors do not recommend the payment of any dividend for FY2018 (FY2017: nil).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 219.

RESULTS AND APPROPRIATIONS

The results of the Group for FY2018 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income on pages 111 and 112, respectively.

RESERVES

Movements in reserves of the Group during FY2018 are set out in the consolidated statement of changes in equity on page 115.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution, computed in accordance with the Companies Act 1981 of Bermuda (as amended) were nil (2017: nil). However, the Company's share premium account in the amount of approximately HK$4,640,287,000 (31 December 2017: HK$4,640,287,000) may be distributed in the form of fully paid bonus shares.

DONATIONS

No donations were made to charities by the Group during FY2018 (FY2017: nil).

PROPERTY AND EQUIPMENT

Movements in property and equipment of the Group during FY2018 are set out in note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

Movements in investment properties of the Group during FY2018 are set out in note 14 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is in force as at the date of this annual report and was in force throughout FY2018.

INVENTORIES

As at 31 December 2018, inventories consisted of properties under development and completed properties held for sale. Details of inventories of the Group during FY2018 are set out in notes 19 and 20 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during FY2018 are set out in note 33 to the consolidated financial statements.

BORROWINGS

Particulars of the bank loans and other borrowings of the Group as at 31 December 2018 are set out in note 30 to the consolidated financial statements.

INTEREST CAPITALISED

Interest capitalised by the Group during FY2018 amounted to approximately HK$109,536,000 (2017: HK$97,498,000), details of which are set out in note 6 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEME

The Group contributes to defined contribution retirement schemes which are available to all its employees. With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules of the scheme. The employees of the Company's subsidiaries established in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to these schemes is to make the required contributions under the schemes. During FY2018, total contribution of approximately HK$4,528,000 was made by the Group in respect of the above-mentioned schemes, which are both defined contribution schemes. No forfeited contribution under these schemes is available to reduce the contribution payable in future years.

EQUITY-LINKED AGREEMENTS

2016 Senior Notes and 2016 Warrants

The conditional note purchase agreement ("2016 Note Purchase Agreement") dated 3 August 2016 (as amended and supplemented by (i) a deed of adherence dated 23 September 2016 executed by Zhongrong International; (ii) a deed of adherence dated 23 September 2016 executed by Wise United; (iii) a deed of adherence dated 30 December 2016 executed by CCB Overseas; (iv) a deed of adherence dated 30 October 2017 executed by Zhongrong Fund ((i) to (iv) collectively as the "Deeds of Adherence"); and (v) the First Master Amendment Deed) was entered into among (a) the Company as the issuer; (b) Rong De as the controlling shareholder of the Company; (c) Blooming and Heroic Day, each in its capacity as a first tranche investor, Blooming, Heroic Day and such investors being persons who are not connected persons of the Company as identified by the Company which will purchase the 2016 Senior Notes (as defined below) at the closing of the second tranche of the issue and purchase of the 2016 Senior Notes ("2016 Second Tranche Investors"), and SPDBI as a first tranche investor (Blooming, Heroic Day and SPDBI, collectively the "2016 First Tranche Investors"); and (d) Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi (collectively as the "Ultimate Shareholders") as personal guarantors, pursuant to which the Company shall conditionally (aa) issue to the 2016 First Tranche Investors, the 2016 Second Tranche Investors and such investors being persons who are not connected persons of the Company as identified by the Company which will purchase the 2016 Senior Notes (as defined below) at the closing of the third tranche of the issue and purchase of the 2016 Senior Notes ("2016 Third Tranche Investors"), in three tranches, the senior secured guaranteed notes ("2016 Senior Notes") of an aggregate principal amount of up to US$500,000,000; and (bb) in consideration of the purchase of the 2016 Senior Notes by the 2016 First Tranche Investors, the 2016 Second Tranche Investors and the 2016 Third Tranche Investors and the entering into of other transactions contemplated under the relevant transaction documents by such 2016 First Tranche Investors, the 2016 Second Tranche Investors and the 2016 Third Tranche Investors, the Company shall issue warrants ("2016 Warrants") to such 2016 First Tranche Investors, the 2016 Second Tranche Investors and the 2016 Third Tranche Investors in three tranches pursuant to a warrant instrument dated 14 October 2016 executed by the Company, representing an aggregate amount of the exercise moneys of up to US$75,000,000, pursuant to the specific mandate granted to the Directors by the Shareholders at the special general meeting of the Company held on 11 October 2016, further details of which are set out in the announcements of the Company dated 3 August 2016, 23 September 2016 and 11 October 2016, and the circular of the Company dated 23 September 2016.

Pursuant to the 2016 Note Purchase Agreement (as amended and supplemented by the Deeds of Adherence and the First Master Amendment Deed), Rong De was required to create a charge ("2016 Share Charge") over 2,542,000,000 ordinary shares that it held in the Company in favour of BNY HK and each of the Ultimate Shareholders have entered into a personal guarantee (collectively, the "2016 Guarantees") in favour of BNY HK in relation to the 2016 Senior Notes. The 2016 Share Charge, which subsisted in FY2018 and as at the date of this annual report, is discloseable pursuant to Rule 13.17 of the Listing Rules. The 2016 Guarantees subsisted in FY2018 and as at the date of this annual report.

The conditions of the 2016 Senior Notes, which subsisted during FY2018 and as at the date of this annual report, also contain certain specific performance obligations on Rong De (the controlling shareholder of the Company) and the Ultimate Shareholders, which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

It is an event of default under the conditions of the Senior Notes, if, amongst others:

(i) Rong De ceases to beneficially own at least 2,000,000,000 shares of the Company;

(ii) Rong De ceases to (a) control the Company, or (b) beneficially own at least 51% of the total issued share capital of the Company on a fully-diluted basis;

(iii) the Ultimate Shareholders cease to (a) control the Company, or (b) effectively and beneficially own in aggregate at least 51% of the total issued share capital of the Company on a fully-diluted basis;

(iv) the Ultimate Shareholders cease to (a) control Rong De, or (b) legally and beneficially own in aggregate at least 70% of the total issued share capital of Rong De on a fully-diluted basis; and

(v) any of the Ultimate Shareholders ceasing to be a Director.

Upon the occurrence of an event of default, the 2016 Senior Notes shall become immediately due and repayable in accordance with the conditions of the 2016 Senior Notes.

The 2016 Senior Notes constituted direct, unconditional, secured, guaranteed, unsubordinated and general obligations of the Company, which ranked at least pari passu with all other present and future direct, secured, unconditional and unsubordinated obligations, issued, created or assumed by the Company. The Company issued the first tranche of the 2016 Senior Notes ("First Tranche Notes") to the 2016 First Tranche Investors in the aggregate principal of US$190,000,000 (equivalent to approximately HK$1,482,000,000) due on 3 August 2019 on 4 August 2016 and the second tranche of the 2016 Senior Notes ("Second Tranche Notes") to the 2016 Second Tranche Investors in the aggregate principal amount of US$220,000,000 (equivalent to approximately HK$1,716,000,000) due on 22 September 2019 on 23 September 2016. The net proceeds, after deducting issuance costs, received by the Company from the issue of the First Tranche Notes and the Second Tranche Notes amounted to approximately US$389,552,000 (equivalent to approximately HK$3,021,818,000).

On 14 October 2016, the 2016 Warrants representing aggregate exercise moneys of US$28,500,000 were issued to the 2016 First Tranche Investors and the 2016 Warrants representing aggregate exercise moneys of US$33,000,000 were issued to the 2016 Second Tranche Investors.

The 2016 Warrants represent an aggregate amount of the exercise moneys of US$61,500,000 at adjusted strike price of HK$1.8049 for holders of the warrant shares ("2016 Warrant Shares") to subscribe for ordinary Shares. If the subscription rights attached to the 2016 Warrant are exercised in full at the adjusted strike price of HK$1.8049, the 2016 Warrants will entitle the holders thereof ("2016 Warrantholders") to subscribe for up to 265,776,497 Shares (of an aggregate nominal value of HK$26,577,650). The Shares to be allotted and issued upon the exercise of the subscription rights attached to the 2016 Warrants, when allotted and issued, will rank pari passu with the existing ordinary Shares as at the date of allotment, and they will be allotted and issued pursuant to the specific mandate granted to the Directors by the Shareholders at the special general meeting of the Company held on 11 October 2016. The subscription rights attached to the 2016 Warrant will expire on the date falling 36 months from the issue date of such warrants. Further details of the 2016 Warrants are set out in the announcements of the Company dated 3 August 2016, 23 September 2016 and 11 October 2016 and the circular of the Company dated 23 September 2016.

The subscription money payable by a 2016 Warrantholder upon the exercise of the subscription rights, can be satisfied in the following manner at the 2016 Warrantholder's election:

(i) by setting off the outstanding principal amount of any 2016 Senior Notes held by such 2016 Warrantholder in its capacity as the holder of any amount of 2016 Senior Notes against the exercise moneys equal to the aggregate subscription price; or

(ii) by payment in cash to such bank account as designated by the Company as notified in writing to the 2016 Warrantholder three business days in advance; or

(iii) by a combination of payment in cash and by way of set-off as set forth in the foregoing (i) and (ii); or

(iv) by such other method of payment as the Company and such 2016 Warrantholder may reasonably agree.

Assuming the 2016 Warrants representing exercise moneys of US$61,500,000 are issued and all exercise moneys of the subscription rights attached to the 2016 Warrants will be settled by the 2016 Warrantholders to the Company in cash, the Company will receive gross proceeds of approximately HK$480 million, and net proceeds of approximately HK$479 million in this regard. The net proceeds, after deducting issuance costs, received by the Company will be used for funding potential acquisition of other property development projects in Shenzhen or Hebei Province. None of these 2016 Warrants have been exercised as at 31 December 2018.

The Board considered that the issue of the 2016 Senior Notes and the 2016 Warrants represented an opportunity to raise funds for the Company to repay all 2013 Indebtedness (as defined below) and 2014 Indebtedness (as defined below), and to raise additional funds for financing the costs of the Group's construction projects and to be used as the general working capital of the Company.

The Company intended to use the proceeds from the issue of the 2016 Senior Notes in the following manner:

(i) to use the full amount of the proceeds received from the issue of the First Tranche Notes to partially repay the principal amount of debt (to the extent such principal amount has not been set-off or settled as contemplated under the 2016 Note Purchase Agreement (as amended and supplemented by the Deeds of Adherence and the First Master Amendment Deed)) payable to the 2013 Creditors (as defined below) in relation to the 2013 Indebtedness (as defined below);

(ii) to use US$200,000,000 of the proceeds received from the issue of the Second Tranche Notes to repay in full the principal amount of debt (to the extent such principal amount has not been set-off or settled as contemplated under the 2016 Note Purchase Agreement) payable to 2014 Creditors (as defined below) in relation to the 2014 Indebtedness (as defined below);

(iii) to use US$5,000,000 of the proceeds received from the issue of the Second Tranche Notes to repay the indebtedness (other than the 2014 Note Indebtedness (as defined below)) owed by the Company to one of the investors under the three tranches of issue and purchase of the 2016 Senior Notes; and

(iv) to use US$15,000,000 of the proceeds received from the issue of the Second Tranche Notes as the general working capital of the Company, and for financing the costs of the Group's construction projects, provided that such proceeds shall not be used for (a) the subscription or acquisition of any shares or securities of any company listed on any stock exchange; or (b) the acquisition of any assets, properties or undertakings from Rong De and/or any of its affiliates.

For the purpose of the above, the defined terms used above shall have the following meanings:

"2013 Creditors"	means all creditors who are entitled to any payment under the transaction documents in connection with the issue by the Company of the 2013 Senior Notes and the 2013 Warrants, including the registered holders of the outstanding 2013 Senior Notes as at 3 August 2016;
"2013 Indebtedness"	means all outstanding indebtedness incurred by the 2013 Obligors under the transaction documents in connection with the issue by the Company of the 2013 Senior Notes and 2013 Warrants (including the 2013 Note Indebtedness but excluding the 2013 Warrants Indebtedness) as at 4 August 2016;
"2013 Note Indebtedness"	means all outstanding indebtedness incurred by the Company under the 2013 Senior Notes as at 4 August 2016;
"2013 Obligors"	means each party to the transaction documents in connection with the issue by the Company of the 2013 Senior Notes and the 2013 Warrants, other than the investors in the 2013 Senior Notes, BNY HK and all other 2013 Creditors;
"2013 Senior Notes"	means the 12.5% senior secured guaranteed notes in the principal amount of up to US$200,000,000 due in 2016 issued by the Company, further details of which are set out in the announcements of the Company dated 22 July 2013, 5 August 2013, 26 September 2013, 15 October 2013 and 16 October 2013;

DIRECTORS' REPORT

"2013 Warrants"	means the warrants with an aggregate amount of exercise moneys of up to US$40,000,000 of the Company which entitle holders thereof to subscribe for shares of the Company at the initial strike price of HK$2.2691, further details of which are set out in the announcements of the Company dated 22 July 2013, 5 August 2013, 26 September 2013, 15 October 2013 and 16 October 2013;
"2013 Warrants Indebtedness"	means all amounts payable, including all redemption amounts payable by the Company, to the registered holders of the outstanding 2013 Warrants;
"2014 Creditors"	means all creditors who are entitled to any payment under the transaction documents in connection with the issue by the Company of the 2014 Senior Notes and the 2014 Warrants, including the registered holders of the outstanding 2014 Senior Notes as at 3 August 2016;
"2014 Indebtedness"	means all outstanding indebtedness incurred by the 2014 Obligors under the transaction documents in connection with the issue by the Company of the 2014 Senior Notes and the 2014 Warrants (including the 2014 Note Indebtedness but excluding the 2014 Warrants Indebtedness) as at the date on which the consummation of the issue and purchase of the second tranche of the 2016 Senior Notes takes place;
"2014 Note Indebtedness"	means all outstanding indebtedness incurred by the Company under the 2014 Senior Notes as at the date on which the consummation of the issue and purchase of the second tranche of the 2016 Senior Notes takes place;
"2014 Obligors"	means each party to the transaction documents in connection with the issue by the Company of the 2014 Senior Notes and the 2014 Warrants, other than the investors in the 2014 Senior Notes, BNY HK and all other 2014 Creditors;
"2014 Senior Notes"	means the 11.8% senior secured guaranteed notes in the principal amount of up to US$350,000,000 due in 2017 issued by the Company, further details of which are set out in the announcements of the Company dated 22 June 2014, 26 June 2014, 17 July 2014, 21 July 2014, 28 December 2014, 8 January 2015 and 13 February 2015;
"2014 Warrants"	means the warrants with an aggregate amount of exercise moneys of up to US$70,000,000 of the Company which entitle holders thereof to subscribe for shares of the Company at the adjusted strike price of HK$2.1464, further details of which are set out in the announcements of the Company dated 22 June 2014, 26 June 2014, 17 July 2014, 21 July 2014, 28 December 2014, 8 January 2015 and 13 February 2015;
"2014 Warrant Indebtedness"	means all amounts payable, including all redemption amounts payable by the Company, to the registered holders of the outstanding 2014 Warrants; and

"First Master Amendment Deed"	means the First Master Amendment Deed dated 1 November 2018 entered into among the Company, Blooming Rose Enterprises Corp. ("Blooming"), Heroic Day Limited ("Heroic Day"), SPDB International Investment Management Limited ("SPDBI"), Wise United Holdings Limited ("Wise United"), Zhongrong International Wealth Management Limited ("Zhongrong International"), Zhongrong International Growth Fund SPC – Zhongrong Auspicious Fund SP1 ("Zhongrong Fund"), CCB International Overseas Limited ("CCB Overseas"), The Bank of New York Mellon, Hong Kong Branch ("BNY HK"), Rong De, Mr. Liao Tengjia, Mr. Chu Hing Tsung, Mr. Chu Muk Chi, Top Perfect, Ever Crown, East Orient, Fully Wise, Polyhero, Top Asset, Vanco, Ai De, Profaith, South Trend, Cheng Chang, ZG Group, Gains Wide, Talent Wide, Capital Fame, Speedy Full and Diamond Crown.

Subscription Shares

On 26 November 2018, the Company entered into a subscription agreement ("Subscription Agreement") with Rong De, pursuant to which the Company has conditionally agreed to allot and issue, and Rong De has conditionally agreed to subscribe for, 770,000,000 new Shares ("Subscription Shares", each a "Subscription Share") at the price ("Subscription Price") of HK$1.30 per Subscription Share ("Subscription"). The aggregate nominal value of the Subscription Shares is approximately HK$77 million. The Subscription Price represents: (i) a discount of approximately 6.5% over the closing price of HK$1.39 per Share as quoted on the Stock Exchange on 23 November 2018 ("Last Trading Day"); (ii) a discount of approximately 7.8% over the average closing price per Share of HK$1.41 for the last five consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 9.1% over the average closing price per Share of HK$1.43 for the last 10 consecutive trading days up to and including the Last Trading Day; and (iv) a premium of approximately 60.5% over the audited net asset value per Share of the Company of approximately HK$0.81 as at 31 December 2017.

Completion of the Subscription was conditional upon the following conditions precedent:

(i) the passing of the resolution(s) at the special general meeting of the Company by the independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including the granting of the specific mandate for the allotment and issue of the Subscription Shares to the Directors;

(ii) the holders of the 2016 Senior Notes and the 2017 Senior Notes having provided their written consent to the Subscription Agreement;

(iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in all of the Subscription Shares; and

(iv) in addition to conditions (ii) and (iii) above, the Company having obtained each necessary consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver (including but not limited to those provided by the Hong Kong Securities and Futures Commission, the Stock Exchange or any other third party (if applicable)) in relation to the Subscription Agreement and/or the transactions contemplated hereunder, and such consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver not having been revoked or withdrawn.

The Subscription represents a good opportunity for the Group to raise funds to strengthen its capital base and financial position and to support the development of its existing property development business which is a capital-intensive business.

After all the conditions precedent as set out above have been fulfilled, completion of the Subscription took place on 2 January 2019, upon which 770,000,000 Shares have been successfully subscribed by Rong De at the Subscription Price of HK$1.30 per Subscription Share. The Company received total consideration of HK$1,001 million and total net proceeds of approximately HK$1,000.5 million, which are intended to be used by the Group for repaying its bank and other borrowings. As at the date of this annual report, the Company has utilised the net proceeds to settle (1) a bank loan in the principal amount of US$33 million due in January 2019; and (2) a bank loan in the principal amount of RMB61 million repayable by instalments within 1 year with the last instalment due in November 2018. The net subscription price of each Subscription Share is approximately HK$1.30. The remaining portion of the net proceeds has not been utilised and is expected to be used by the Group to repay its bank and other borrowings in 2019.

Details of the Subscription are set out in the announcements of the Company dated 26 November 2018 and 2 January 2019 and the circular of the Company dated 12 December 2018.

Save as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during FY2018 or subsisted at the end of FY2018.

2017 SENIOR NOTES

The conditional note purchase agreement dated 30 November 2017 ("2017 Note Purchase Agreement") was entered into among (a) the Company as the issuer; (b) Rong De as the controlling shareholder of the Company; (c) China Huarong Macau (HK) Investment Holdings Limited ("China Huarong") as first tranche investor; and (d) the Ultimate Shareholders as personal guarantors, pursuant to which the Company shall conditionally agree to issue to China Huarong (as the first tranche investor) and any other person(s) (including if agreed by China Huarong) being persons not connected persons of the Company who shall purchase the second tranche of the 2017 Senior Notes (as defined below) at the closing of the second tranche of the issue and purchase of the 2017 Senior Notes (as the second tranche investor), in two tranches, the senior secured guaranteed notes ("2017 Senior Notes") of an aggregate principal amount of up to US$80,000,000 (equivalent to approximately HK$624,000,000), further details of which are set out in the announcement of the Company dated 30 November 2017.

Pursuant to the 2017 Note Purchase Agreement, Rong De was required to execute a share charge in favour of China Huarong in respect of 100,000,000 ordinary shares of the Company beneficially held by Rong De ("2017 Share Charge"), and each of the Ultimate Shareholders was required to enter into a personal guarantee in favour of China Huarong in relation to the 2017 Senior Notes (collectively, the "2017 Guarantees"). The 2017 Share Charge, which subsisted in FY2018 and as at the date of this annual report, is discloseable pursuant to Rule 13.17 of the Listing Rules. The 2017 Guarantees subsisted in FY2018 and as at the date of this annual report.

The conditions of the 2017 Senior Notes, which subsisted during FY2018 and as at the date of this annual report, also contain certain specific performance obligations on Rong De (the controlling shareholder of the Company) and the Ultimate Shareholders, which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

It is an event of default under the conditions of the 2017 Senior Notes, if, amongst others:

(i) the Ultimate Shareholders cease to (a) control the Company; or (b) legally and beneficially own in aggregate at least 51% of the total issued share capital of the Company on a fully-diluted basis;

(ii) the Ultimate Shareholders cease to (a) control Rong De; or (b) legally and beneficially own in aggregate at least 70% of the total issued share capital of Rong De on a fully-diluted basis;

(iii) Rong De cease to (a) control the Company; or (b) beneficially own at least 51% of the total issued share capital of the Company on a fully-diluted basis; and

(iv) any of the Ultimate Shareholders:

(a) dies or is incapacitated or prevented by reason of mental or physical ill health, injury or accident from performing his duties as a Director;

(b) becomes of unsound mind, or is or becomes a patient for any purpose of any law relating to mental health;

(c) becomes bankrupt or has a receiving order made against him or makes any arrangement or composition with his creditors generally; or

(d) ceases to be a Director.

Upon the occurrence of an event of default, the 2017 Senior Notes shall become immediately due and repayable in accordance with the conditions of the 2017 Senior Notes.

The 2017 Senior Notes rank at least pari passu with all other present and future direct, secured, unconditional and unsubordinated obligations, issued, created or assumed by the Company. The Company issued the first tranche of the 2017 Senior Notes to China Huarong in the aggregate principal amount of US$50,000,000 (equivalent to approximately HK$390,229,000) due on 12 December 2019 on 13 December 2017. The net proceeds, after deducting issuance costs, received by the Company from the issue of the first tranche of the 2017 Senior Notes amounted to approximately US$48,474,000 (equivalent to approximately HK$378,319,000).

The Company intended to use the proceeds from the issue of the 2017 Senior Notes for funding real estate development projects, and paying operation and construction costs of the following projects: (i) Project Zhuguang Xincheng Yujing* (珠光新城御景項目); and (ii) Project Zhuguang Tianying Junyuan* (珠光天鷹君苑項目). The Board considered that the issue of the 2017 Senior Notes represented an opportunity for the Group to raise funds for funding the above construction projects of the Group.

CCBIS MARGIN LOAN

On 25 October 2018, Splendid Reach Limited ("Splendid"), a wholly-owned subsidiary of the Company, as borrower, and CCB International Securities Limited (建銀國際證券有限公司) ("CCBIS"), as lender, entered into a margin loan confirmation ("CCBIS Margin Loan Confirmation"), under which CCBIS agreed to make available to Splendid a margin loan over the term ("Term") of not more than 12 months, in the principal amount of up to HK$750,000,000 (for the first five business days of the Term) and HK$550,000,000 (from and including the sixth business day of the Term and thereafter), at the interest rate of 7.75% per annum ("CCBIS Margin Loan"), with interest payable quarterly, further details of which are set out in the announcement of the Company dated 25 October 2018. As at 31 December 2018, the amount of HK$550,000,000 was outstanding under the CCBIS Margin Loan.

** English name is translated for identification purpose only*

DIRECTORS' REPORT

Pursuant to the CCBIS Margin Loan Confirmation, (a) Rong De (the controlling shareholder of the Company) was required to enter into a charge dated 25 October 2018 ("SL Rong De Charge"), in favour of CCBIS, over a margin securities trading account opened by Rong De with CCBIS ("SL Rong De Account"), into which Rong De shall deposit, among other assets, no less than 100,000,000 Shares held by Rong De before the first drawdown date ("SL Rong De Charged Shares First Batch") and no less than 150,000,000 Shares held by Rong De on or before the 60th day of the Term ("SL Rong De Charged Shares Second Batch", together with the SL Rong De Charged Shares First Batch, collectively as the "Aggregate SL Rong De Charged Shares"); and (b) the Company, Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi were required to enter into a continuing guarantee dated 25 October 2018 ("CCBIS Continuing Guarantee"), in favour of CCBIS, to guarantee the settlement of all liabilities and obligations of Splendid under the CCBIS Margin Loan. The SL Rong De Charge, which subsisted in FY2018 and as at the date of this annual report, is disclosable pursuant to Rule 13.17 of the Listing Rules. As at 31 December 2018, out of the Shares deposited by Rong De into the SL Rong De Account, 320,000,000 Shares were in relation to the CCBIS Margin Loan. The CCBIS Continuing Guarantee subsisted in FY2018 and as at the date of this annual report.

The conditions of the CCBIS Margin Loan which subsisted during FY2018 and as at the date of this annual report, also contain certain specific performance obligations on Rong De (the controlling shareholder of the Company), which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

Under the CCBIS Margin Loan Confirmation, Splendid shall procure Rong De to:

(i) deposit the SL Rong De Charged Shares First Batch into the SL Rong De Account prior to the first drawdown date;

(ii) deliver the SL Rong De Charge prior to the first drawdown date;

(iii) deposit the SL Rong De Charged Shares Second Batch into the SL Rong De Account on or before the 60th day of the Term;

(iv) maintain its deposit of the Aggregate SL Rong De Charged Shares in the SL Rong De Account, and shall procure Rong De not to charge, mortgage, pledge, or otherwise permit any encumbrance to be created over the Aggregate SL Rong De Charged Shares (other than the encumbrance created pursuant to the SL Rong De Charge or otherwise agreed by CCBIS);

(v) not to apply for registration as a non-Hong Kong company pursuant to Part 16 of the Companies Ordinance without having obtained the prior written consent of CCBIS;

(vi) in the event that Rong De has obtained the prior written consent to apply for registration as a non-Hong Kong Company as set out in (v) above, Rong De shall procure that the prescribed particular of the SL Rong De Account together with the SL Rong De Charge be delivered to the Companies Registry of Hong Kong for the registration of the SL Rong De Charge and promptly deliver the certificate of such registration of the SL Rong De Charge to CCBIS;

(vii) promptly after execution of the SL Rong De Charge, instruct its registered agent to enter particulars as required by the BVI Business Companies Act 2004 of the British Virgin Islands ("BVI Act"), as amended, of the security created pursuant to the SL Rong De Charge in the Rong De's Register of Charges ("Rong De Register of Charges");

(viii) enter particulars as required by the BVI Act of the security created pursuant to the SL Rong De Charge in the Rong De Register of Charges and, immediately after entry of such particulars have been made, provide CCBIS with a certified true copy of the updated Rong De Register of Charges;

(ix) effect registration, or assist CCBIS in effecting registration, of the SL Rong De Charge with the Registrar of Corporate Affairs pursuant to the BVI Act; and

(x) immediately on receipt, deliver or procure to be delivered to CCBIS, the certificate of registration of charge issued by the Registrar of Corporate Affairs evidencing that the requirements of Part VIII of the BVI Act as to registration have been complied with and the filed stamped copy of the application containing the relevant particulars of charge.

A breach of any of the above acts by Rong De shall constitute an event of default, which shall cause the CCBIS Margin Loan to become immediately due and repayable in accordance with the conditions of the CCBIS Margin Loan.

CINDA TERM LOAN FACILITY

On 23 November 2018, Splendid, as borrower, and China Cinda (HK) Asset Management Co., Limited (中國信達(香港)資產管理有限公司) ("Cinda"), as lender, entered into a facility agreement ("Cinda Term Loan Facility Agreement"), under which Cinda agreed to make available to Splendid a term loan facility in the aggregate amount of HK$500,000,000, at the interest rate of 12% per annum ("Cinda Term Loan Facility"), with interest payable quarterly and final principal repayment due on 30 October 2019, further details of which are set out in the announcement of the Company dated 23 November 2018. As at 31 December 2018, the amount of HK$500,000,000 was outstanding under the Cinda Term Loan.

Pursuant to the Cinda Term Loan Facility Agreement, Rong de (the controlling shareholder of the Company) was required to:

(a) enter into a charge dated 23 November 2018 ("JL Rong De Charge"), in favour of Cinda, over (i) the SL Rong De Account; and (ii) a brokerage account, a Hong Kong dollar denominated cash account and a Hong Kong denominated safekeeping account which were opened or to be opened by Rong De with China Construction Bank (Asia) Corporations Limited ("CCBA") (collectively referred to as the "JL Rong De Accounts") on or before 15 December 2018;

(b) deposit no less than 100,000,000 Shares held by Rong De before the drawdown of the Cinda Term Loan Facility into the SL Rong De Account;

(c) deposit no less than an additional 150,000,000 Shares held by Rong De within 10 business days of the drawdown of the Cinda Term Loan Facility into the SL Rong De Account;

DIRECTORS' REPORT

(d) enter into an intercreditor agreement dated 23 November 2018, as third party chargor, with CCBIS as senior lender, Cinda as junior lender, and Splendid as borrower, under which the parties agreed the following:

(i) the charge created over the SL Rong De Account under the JL Rong De Charge and the charge created over the margin securities trading account opened by Splendid with CCBIS ("Splendid Account") under a charge ("JL Splendid Charge") over (aa) the SL Splendid Account; and (bb) a brokerage account, a Hong Kong dollar denominated cash account and a Hong Kong dollar denominated safekeeping account opened by Splendid with CCBA (collectively referred to as the "JL Splendid Accounts"), entered into on 23 November 2018 by Splendid in favour of Cinda, are subject to the existing security created pursuant to the SL Rong De Charge and the SL Splendid Charge respectively, meaning that in the event of enforcement of the SL Rong De Charge and the SL Splendid Charge, the proceeds of enforcement will first be applied towards payment of the CCBIS Margin Loan and all other amounts outstanding under the CCBIS Margin Loan Confirmation; and

(ii) immediately after the CCBIS Margin Loan and all other amounts under the CCBIS Margin Loan Confirmation have been fully repaid by Splendid (whether by enforcement of such relevant security or otherwise), CCBIS will transfer all remaining assets in the SL Rong De Account and the SL Splendid Account respectively, if any, to the relevant JL Rong De Accounts and the JL Splendid Accounts (as applicable).

In addition, the Company, Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi were required to enter into a continuing guarantee dated 23 November 2018 ("Cinda Continuing Guarantee"), in favour of Cinda, to guarantee the settlement of all liabilities and obligations of Splendid under the Cinda Term Loan Facility.

The JL Rong De Charge, which subsisted in FY2018 and as at the date of this annual report, is disclosable pursuant to Rule 13.17 of the Listing Rules. As at 31 December 2018, out of the Shares deposited by Rong De into the SL Rong De Account, 320,000,000 Shares were in relation to the Cinda Term Loan Facility. The Cinda Continuing Guarantee subsisted in FY2018 and as at the date of this annual report.

Under the Cinda Term Loan Facility Agreement and the JL Rong De Charge, Rong De shall (or Splendid shall procure Rong De to):

(i) deposit no less than 100,000,000 Shares into the SL Rong De Account;

(ii) deposit no less than an additional 150,000,000 Shares into the SL Rong De Account within 10 business days of the drawdown of the Cinda Term Loan Facility;

(iii) maintain its deposit of Shares as required under the Cinda Term Loan Facility Agreement and the JL Rong De Charge in the SL Rong De Account;

(iv) not apply for registration as a non-Hong Kong company pursuant to Part 16 of the Companies Ordinance without having obtained the prior written consent of Cinda;

(v) promptly after execution of the JL Rong De Charge, instruct its registered agent to enter particulars as required by the BVI Act, as amended, of the security created pursuant to the JL Rong De Charge in the Rong De Register of Charges;

(vi) enter particulars as required by the BVI Act of the security created pursuant to the JL Rong De Charge in the Rong De Register of Charges and, immediately after entry of such particulars have been made, provide Cinda with a certified true copy of the updated Rong De Register of Charges;

(vii) effect registration, or assist Cinda in effecting registration, of the JL Rong De Charge with the Registrar of Corporate Affairs of the BVI pursuant to the BVI Act; and

(viii) immediately on receipt, deliver or procure to be delivered to Cinda, the certificate of registration of charge issued by the Registrar of Corporate Affairs evidencing that the requirements of Part VIII of the BVI Act as to registration have been complied with and the filed stamped copy of the application containing the relevant particulars of charge.

A breach of any of the above acts by Rong De or Splendid shall constitute an event of default, which shall cause the outstanding liabilities under the Cinda Term Loan Facility to become immediately due and repayable in accordance with the conditions of the Cinda Term Loan Facility.

ISSUE OF PERPETUAL CAPITAL SECURITIES

On 29 October 2018, the Company issued perpetual capital securities ("Perpetual Securities") in the aggregate principal of HK$800,000,000 at a distribution rate of 6% per annum to Rong De (the controlling shareholder of the Company). The Perpetual Securities have no fixed redemption date and are redeemable at the option of the Company at any time and from time to time, whether in whole or in part, at any time after its issue. While distribution is payable by the Company every six months, the Company may, at its sole discretion, elect to defer, in whole or in part, any distribution (including any arrears of distribution) to the next distribution payment date. The proceeds from the issue of the Perpetual Securities were used for financing the corporate funding requirement of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

For FY2018, the Group's revenue attributable to the Group's five largest customers was less than 30%. For FY2018, purchases from the Group's largest and five largest suppliers accounted for approximately 19% and 39% of total purchases of the Group, respectively.

Save as disclosed in note 42 to the consolidated financial statements, none of the Directors and their close associates or any Shareholder (who to the best knowledge of the Directors, own more than 5% of the Company's share capital) had interest in the above customers and suppliers at any time during FY2018.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that employees are one of the significant assets of the Group. The Group aims to continue establishing a caring environment for its employees and emphasises the personal development of its employees. The Group organises various social and recreational activities, including annual dinner and birthday parties, to strengthen the bonding among its employees and promote their sense of belonging. During FY2018, there was no material non-compliance with relevant laws and regulations that had a significant impact on the Group relating to the compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare with respect to its employees.

The Group understands that it is important to maintain good relationships with its customers and provide its products in a way that satisfies the needs and requirements of its customers. The Group enhances its customer relationships by continuous interaction with its customers to gain an insight on the changing market demand so that the Group can respond proactively. The Group has also established procedures for handling customers' complaints to ensure complaints from customers are dealt with in a prompt and timely manner. Because of its business nature, the Group does not rely on any major customers and no credit terms are granted to them.

The Group is also dedicated to developing good relationships with its suppliers and contractors as long-term business partners to ensure stability of its business. The Group reinforces business partnerships with its suppliers and contractors by ongoing communication with them in a proactive and effective manner so as to ensure the quality and timely delivery of their products and services.

DIRECTORS

During FY2018 and as at the date of this annual report, the Board comprises six executive Directors, namely Mr. Chu Hing Tsung, who is also the Chairman, Mr. Liu Jie, who is also the Chief Executive Director, Mr. Liao Tengjia, who is also a Deputy Chairman, Mr. Huang Jiajue, who is also a Deputy Chairman, Mr. Chu Muk Chi and Ms. Ye Lixia, and three independent non-executive Directors, namely Mr. Leung Wo Ping *JP*, Mr. Wong Chi Keung and Dr. Feng Ke.

Mr. Liao Tengjia, Ms. Ye Lixia and Dr. Feng Ke will retire from office by rotation at the forthcoming annual general meeting in accordance with Bye-Law No. 87 of the Bye-Laws and, being eligible, will offer themselves for re-election.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, there were changes in the information required to be disclosed in accordance with paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules in the course of the Directors' term of office.

Mr. Chu Hing Tsung, the Chairman and an executive Director, has been appointed as a non-executive director of Silver Grant with effect from 29 January 2019.

Mr. Huang Jiajue, a Deputy Chairman and an executive Director, has been appointed as an executive director of Silver Grant with effect from 29 January 2019.

Mr. Wong Chi Keung, an independent non-executive Director, ceased to act as an independent non-executive director of China Shanshui Cement Group Limited (a company listed on the Main Board of the Stock Exchange with stock code: 0691) with effect from 23 May 2018.

Dr. Feng Ke, an independent non-executive Director, ceased to act as an independent director of China Greatwall Technology Group Co., Ltd.* (中國長城科技集團有限公司) (previously known as China Great Wall Computers Shenzhen Co., Ltd.* (中國長城計算器深圳股份有限公司)) (a company listed on the Shenzhen Stock Exchange with stock code: 000066) with effect from 3 April 2018. Dr. Feng has been appointed as an independent director of Tianjin Guangyu Development Co., Ltd.* (天津廣宇發展股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code: 000537) with effect from 25 June 2018.

Save as aforesaid, the Company has not been advised by the Directors of any change in the information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since its last update to the Shareholders.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or subsisted during FY2018.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a letter of appointment with no fixed term of service with the Company. Such letter of appointment can be terminated by either party giving three months' written notice.

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

** English name is translated for identification purpose only*

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and those of the five highest paid individuals of the Group for FY2018 are set out in notes 8 and 9 to the consolidated financial statements respectively.

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

(a) As at the 31 December 2018, the interests and short positions of each Director and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (ii) were required, pursuant to the Code, to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares

Name of Director/ chief executive of the Company	Nature of interest	Number of Shares	Approximate percentage of total issued share capital of the Company (Note 2)
Chu Hing Tsung (alias Zhu Qing Yi)	Interest of a controlled corporation (Note 1)	4,825,791,289	67.08%
Liao Tengjia	Interest of a controlled corporation (Note 1)	4,825,791,289	67.08%
Huang Jiajue	Beneficial ownership	14,330,000	0.22%

Notes:

1. 4,825,791,289 Shares were held by Rong De, which was owned as to 34.06% by Mr. Chu Hing Tsung and as to 36.00% by Mr. Liao Tengjia. Mr. Chu Hing Tsung and Mr. Liao Tengjia were deemed to be interested in the Shares held by Rong De under the SFO. To the best knowledge of the Directors, out of the aforesaid 4,825,791,289 Shares, 320,000,000 Shares, 3,021,112,000 Shares and 100,000,000 Shares have been pledged by Rong De to CCBIS as senior lender and Cinda as junior lender, The Bank of New York Mellon, Hong Kong Branch ("BNY HK") and China Huarong Macau (HK) Investment Holdings Limited ("China Huarong Macau") respectively. Mr. Liao Tengjia is a director of Rong De.

2. The total number of the issued Shares as at 31 December 2018 (i.e. 6,424,417,247 Shares) had been used for the calculation of the approximate percentage shareholdings in the Company

Interest in shares of the Company's associated corporation

Name of Director/ chief executive of the Company	Name of Associated corporation	Capacity	Total number of ordinary shares	Approximate percentage of interest
Chu Hing Tsung (alias Zhu Qing Yi)	Rong De	Beneficial owner	68,120	34.06%
Chu Muk Chi (alias Zhu La Yi)	Rong De	Beneficial owner	59,888	29.94%
Liao Tengjia	Rong De	Beneficial owner	71,992	36.00%

(b) Save as disclosed in this annual report, as at 31 December 2018, none of the Directors or the chief executive of the Company had any interest and short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (ii) were required, pursuant to the Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

On 17 December 2014, 廣州愉捷貿易有限公司 (Guangzhou Yujie Trading Company Limited*), a wholly-owned subsidiary of the Company as purchaser, conditionally entered into 50 preliminary sale and purchase agreements ("SP Agreements") with 廣州黃沙鐵路房地產開發有限公司 (Guangzhou Huangsha Railway Real Property Development Company Limited*), an independent third party, as vendor ("Vendor"), in relation to the acquisition of 50 properties ("Acquired Properties") in Guangzhou, the PRC, jointly developed by 廣州珠光投資有限公司 (Guangzhou Zhuguang Investment Company Limited*) ("GZ Investment"), a related party of the Group and an independent third party, at the consideration of RMB1,106,820,000 (equivalent to approximately HK$1,403,881,000) which shall be settled by cash ("Project"). GZ Investment is entitled to 75% of the distributable interests ("Right") under the Project and the income derived therefrom. In November 2014, Mr. Chu Hing Tsung, the Chairman and an executive Director, has acquired from GZ Investment, at the consideration of RMB760,000,000 (equivalent to approximately HK$963,978,000), part of the Right ("Acquired Right"), pursuant to which he is entitled to request the Vendor to transfer three of the buildings ("Phase I Buildings") in relation to phase I of the Project to him, or alternatively he is entitled to the sale proceeds of the Phase I Buildings if he requests the Vendor to sell the Phase I Buildings for him. The Acquired Properties are part of the underlying interest in the Acquired Right. The SP Agreements subsisted during FY2018. For details of the SP Agreements, please refer to the circular of the Company dated 5 March 2015.

Save as disclosed above and under the paragraphs headed "EQUITY-LINKED AGREEMENTS", "ISSUE OF PERPETUAL CAPITAL SECURITIES" and "CONNECTED TRANSACTIONS" in this directors' report and in note 42 to the consolidated financial statements, no other transactions, arrangements and contracts of significance to which the Company or any of its subsidiaries or its holding company was a party and in which a Director or any entity connected with a Director had a material interest, either directly or indirectly, subsisted at the end of FY2018 or at any time during FY2018.

Save as disclosed under the paragraph headed "Subscription Shares" in this directors' report, no other arrangements to which the Company or any of its subsidiaries or its holding company was a party and whose objects are, or one of whose objects is, to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, subsisted at the end of FY2018 or at any time during FY2018.

** English name is translated for identification purpose only*

COMPETING INTERESTS

Pursuant to Rule 8.10 of the Listing Rules, during FY2018 and as at 31 December 2018, Mr. Liao Tengjia and Mr. Huang Jiajue, both being executive Directors, were interested as directors in companies that are engaged in the businesses of property development, investment and property rental in the PRC ("Competing Businesses"). As such, they were regarded as being interested in such Competing Businesses, which competed or might compete with the Group. However, as the above Directors cannot control the Board, and a Director who has material interest in a subject matter to be resolved will abstain from voting in the Board meeting concerned, the interests of the above Directors in the Competing Businesses will not prejudice their capacity as Directors nor compromise the interests of the Group and the Shareholders.

Other than as disclosed above, none of the Directors or any of their respective associates of the Company were interested in any business apart from the Company's business, which competed or was likely to compete, either directly or indirectly, with the Company's business.

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

(a) As at 31 December 2018, so far as it is known to the Directors or the chief executive of the Company, the following persons, other than a Director or the chief executive of the Company, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and were required to be kept under section 336 of the SFO:

Interests of substantial Shareholders

Name of Shareholder	Capacity/ Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
Rong De (Note 1)	Beneficial owner	4,825,791,289 (L)	67.08%	–	–

Interests of other persons

Name of Shareholder	Capacity/ Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
CCBIS (Note 1)	Security interest	320,000,000 (L)	3.89%	–	–
Cinda (Note 1)	Security interest	320,000,000 (L)	3.89%	–	–
China Great Wall Asset Management Corporation ("CGWAMC") (Note 2)	Interest of controlled corporations	1,200,000,000 (L)	18.68%	–	–
Central Huijin Investment Limited ("Central Huijin") (Notes 3 and 4)	Interest of controlled corporations	–	–	65,363,127 (L)	1.02%
	Security interest	3,051,112,000 (L)	47.49%	–	–
Agricultural Bank of China Limited ("ABCL") (Note 3)	Interest of controlled corporations	–	–	45,754,189 (L)	0.71%
	Security interest	3,051,112,000 (L)	47.49%	–	–
Ministry of Finance of the People's Republic of China ("MOF") (Note 3)	Interest of controlled corporations	–	–	45,754,189 (L)	0.71%
	Security interest	3,051,112,000 (L)	47.49%	–	–
China Construction Bank Corporation ("CCB") (Note 4)	Interest of controlled corporations	–	–	19,608,938 (L)	0.30%
	Security interest	3,051,112,000 (L)	47.49%	–	–

Directors' Report

Name of Shareholder	Capacity/ Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
The Bank of New York Mellon Corporation ("BNY") (Note 5)	Security interest	3,021,112,000 (L)	47.03%	–	–
China Orient Asset Management Co., Ltd. ("COAM") (Note 6)	Interest of controlled corporations	3,021,112,000 (L)	47.03%	146,286,572 (L)	2.28%
Cheung Fong Wing (Note 7)	Interest of a controlled corporation	418,500,000 (L)	6.51%	–	–
Quan Xing Holdings Limited ("Quan Xing") (Note 7)	Beneficial owner	418,500,000 (L)	6.51%	–	–
中國華融資產管理股份有限公司 ("CHAMCL") (Note 8)	Interest of controlled corporations	575,984,000 (L)	8.97%	7,778,824 (L)	0.12%
Huarong International Financial Holdings Limited ("Huarong International") (Note 9)	Interest of controlled corporations	475,984,000 (L)	7.40%	–	–

(L) Long position

Notes:

1. The Shares comprised of the 4,825,791,289 Shares beneficially owned by Rong De as stated under "Directors' interests and short position in the securities of the Company and its associated corporations — Long position in the Shares". To the best knowledge of the Directors, out of the aforesaid 4,825,791,289 Shares, 320,000,000 Shares, 3,021,112,000 Shares and 100,000,000 Shares have been pledged by Rong De to CCBIS as senior lender and Cinda as junior lender, BNY HK and China Huarong Macau respectively. Mr. Liao Tengjia is a director of Rong De.

2. According to the disclosure of interest notice filed by CGWAMC on 17 July 2014, Evergreat Prosper Limited held direct interest in the Shares and is a wholly-owned subsidiary of Great Wall Pan Asia International Investment Company Limited ("GWPAIICL"). GWPAIICL is a wholly-owned subsidiary of CGWAMC. Accordingly, GWPAIICL and CGWAMC are deemed to be interested in the Shares held by Evergreat Prosper Limited by virtue of the provisions of the SFO.

3. According to the disclosure of interest notices filed by ABCL and Heroic Day Limited ("Heroic Day") on 4 January 2019, Heroic Day held direct interest in 3,051,112,000 Shares and 45,754,189 underlying Shares. Heroic Day is a wholly-owned subsidiary of ABCI Investment Management Limited ("ABCIIM"). ABCIIM is a wholly-owned subsidiary of ABC International Holdings Limited ("ABCIH"). ABCIH is a wholly-owned subsidiary of ABCL. According to the disclosure of interest notice filed by Central Huijin and MOF on 4 January 2019, ABCL is in turn owned as to 40.03% by Central Huijin and as to 39.21% by MOF. Accordingly, ABCIIM, ABCIH, ABCL, Central Huijin and MOF are deemed to be interested in the Shares and the underlying Shares held by Heroic Day by virtue of the provisions of the SFO.

4. According to the disclosure of interest notice filed by CCB on 4 January 2019, CCB International Overseas Limited ("CCBIO") held direct interest in 3,051,112,000 Shares and 19,608,938 underlying Shares, and is a wholly-owned subsidiary of CCB International (Holdings) Limited ("CCBIH"). CCBIH is a wholly-owned subsidiary of CCB Financial Holdings Limited ("CCBFH"). CCBFH is a wholly-owned subsidiary of CCB International Group Holdings Limited ("CCBIG"). CCBIG is a wholly-owned subsidiary of CCB. According to the disclosure of interest notice filed by Central Huijin on 4 January 2019, CCB is owned as to 57.11% by Central Huijin. Accordingly, CCBIH, CCBFH, CCBIG, CCB and Central Huijin are deemed to be interested in the Shares and the underlying Shares held by CCBIO by virtue of the provisions of the SFO.

5. According to the disclosure of interest notice filed by BNY on 3 January 2017, The Bank of New York Mellon, Hong Kong Branch ("BNY HK") held direct interest in the Shares and is wholly-owned by BNY. Accordingly, BNY is deemed to be interested in the Shares held by BNY HK by virtue of the provisions of the SFO.

6. According to the disclosure of interest notice filed by COAM on 20 April 2017, Blooming Rose Enterprises Corp. ("Blooming") held direct interest in 3,021,112,000 Shares and 146,286,572 underlying Shares, and is a wholly-owned subsidiary of China Orient Asset Management (International) Holding Limited ("COAM International"). COAM International is held as to 50% by Wise Leader Assets Limited ("Wise Leader") and 50% by Dong Yin Development (Holdings) Limited ("Dong Yin"). Wise Leader is held as to 100% by Dong Yin and Dong Yin is a wholly-owned subsidiary of COAM. Accordingly, COAM International, Wise Leader, Dong Yin and COAM are deemed to be interested in the Shares and the underlying Shares held by Blooming by virtue of the provisions of the SFO.

7. Quan Xing was the beneficial owner of these Shares, which is wholly-owned by Mr. Cheung Fong Wing. Accordingly, Mr. Cheung Fong Wing is deemed to be interested in the Shares held by Quan Xing by virtue of the provisions of the SFO.

DIRECTORS' REPORT

8. According to the disclosure of interest notice filed by CHAMCL on 28 November 2018 ("CHAMCL Notice"), Wise United Holdings Limited ("Wise United") held direct interest in 7,778,824 underlying Shares and is a wholly-owned subsidiary of Diamond Path International Investments Limited ("DPII"). DPII is a wholly-owned subsidiary of Diamond Path Investments Limited ("DP"). DP is a wholly-owned subsidiary of Huarong Investment Stock Corporation Limited ("HI"). HI is owned as to 50.99% by Right Select International Limited ("RSI"). RSI is a wholly-owned subsidiary of China Huarong International Holdings Limited ("CHIH"). CHIH is held as to 11.90% by Huarong Zhiyuan Investment & Management Co., Ltd. ("HZY") and as to 88.10% by Huarong Real Estate Co., Ltd. ("HRE"). Each of HZY and HRE is a wholly-owned subsidiary of CHAMCL. Accordingly, DPII, DP, HI, RSI, CHIH, HZY, HRE and CHAMCL are deemed to be interested in the underlying Shares held by Wise United by virtue of the provisions of the SFO. According to the CHAMCL Notice, Visual Dome Fund L.P. ("Visual Dome") held direct interest in 257,700,000 Shares. Visual Dome, the general partner of which is Micro Vision Fund Ltd., is held as to 50% by its limited partner, Ocean Charm Investments Limited ("Ocean Charm"). Ocean Charm is a wholly-owned subsidiary of Linewear Assets Limited ("Linewear"), which is in turn wholly-owned by Huarong International Financial Holdings Limited ("Huarong International"). Huarong International is held as to 51% by Camellia Pacific Investment Holding Limited ("Camellia Pacific"), which in turn is a wholly-owned subsidiary of CHIH. Accordingly, Ocean Charm, Linewear, Huarong International, Camellia Pacific, CHIH, HRE, HZY and CHAMCL are deemed to be interested in the Shares held by Visual Dome by virtue of the provisions of the SFO. According to the CHAMCL Notice, Beyond Steady Limited ("Beyond Steady"), a wholly-owned subsidiary of Linewear, held direct interest in 218,284,000 Shares. Accordingly, Linewear, Huarong International, Camellia Pacific, CHIH, HRE, HZY and CHAMCL are deemed to be interested in the Shares held by Beyond Steady by virtue of the provisions of the SFO. According to the CHAMCL Notice, China Huarong Macau held direct interest in 100,000,000 Shares and is a wholly-owned subsidiary of 中國華融(澳門)國際股份有限公司 ("Huarong Macau"). Huarong Macau is owned as to 51% by Huarong (HK) Industrial and Financial Investment Limited ("Huarong HK"), which is a wholly-owned subsidiary of HRE. Accordingly, Huarong Macau, Huarong HK, HRE and CHAMCL are deemed to be interested in the Shares held by China Huarong Macau by virtue of the provisions of the SFO.

9. According to the CHAMCL Notice, Visual Dome held direct interest in 257,700,000 Shares. Visual Dome, the general partner of which is Micro Vision Fund Ltd., is held as to 50% by its limited partner, Ocean Charm. Ocean Charm is a wholly-owned subsidiary of Linewear, which is in turn wholly-owned by Huarong International. Accordingly, Ocean Charm, Linewear and Huarong International are deemed to be interested in the Shares held by Visual Dome by virtue of the provisions of the SFO. According to the CHAMCL Notice, Beyond Steady, a wholly-owned subsidiary of Linewear, held direct interest in 218,284,000 Shares. Accordingly, Linewear and Huarong International are deemed to be interested in the Shares held by Beyond Steady by virtue of the provisions of the SFO.

10. The total number of issued Shares as at 31 December 2018 (i.e. 6,424,417,247 Shares) had been used for the calculation of the approximate percentage shareholdings in the Company.

(b) Save as disclosed above, the Directors or the Chief Executive Officer are not aware of any other persons (not being Directors or chief executive of the Company) as at 31 December 2018, 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 Part XV of the SFO and were required to be kept under section 336 of the SFO.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONNECTED TRANSACTIONS

(1) On 25 December 2018, Guangzhou Zhuguang Property, a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company, and Xiu Yuan, a company established in the PRC with limited liability, entered into the Yu Ying SPA in relation to the Yu Ying Acquisition of the Yu Ying Sale Interest of Yu Ying, a company established in the PRC with limited liability. Pursuant to the Yu Ying SPA, Guangzhou Zhuguang Property agreed to purchase, and Xiu Yuan agreed to sell, the Yu Ying Sale Interest, which represents 30% of the equity interest of Yu Ying at the consideration of RMB240 million (equivalent to approximately HK$270 million).

Completion of the Yu Ying Acquisition took place on 26 December 2018, after completion of the registration of the Yu Ying Acquisition with the relevant government authority in the PRC.

Immediately before completion of the Yu Ying Acquisition, Yu Ying was a non-wholly owned subsidiary of the Company of which 70% of its equity interest was owned by the Group and the remaining 30% of its equity interest was owned by Xiu Yuan. As Xiu Yuan was a substantial shareholder (as defined in the Listing Rules) of Yu Ying on the date of the Yu Ying SPA and hence a connected person of the Company at the subsidiary level, the Yu Ying Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As Yu Ying is primarily engaged in property development in the PRC and it holds land and property projects of high quality with good development potential, the Group's acquisition of the remaining 30% equity interest in Yu Xing through the Yu Ying Acquisition would enable the Group to enhance control efficiency and facilitate management over Yu Ying which would benefit the property development business of the Group.

Details of the Yu Ying Acquisition are set out in the announcement of the Company dated 27 December 2018.

DIRECTORS' REPORT

(2) On 26 November 2018, the Company entered into the Subscription Agreement with Rong De, being the controlling shareholder of the Company. In particular. Mr. Chu Hing Tsung, being the Chairman and an executive Director, is the beneficial owner of 34.06% equity interest in Rong De. Mr. Liao Tengjia, being the Deputy Chairman and an executive Director, is the sole director of Rong De and the beneficial owner of 36.00% equity interest in Rong De. Mr. Chu Muk Chi, being an executive Director, is the beneficial owner of 29.94% equity interest in Rong De. Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and Rong De has conditionally agreed to subscribe for, 770,000,000 new Shares at HK$1.30 per Subscription Share. The Company received total consideration of HK$1,001 million and total net proceeds of approximately HK$1,000.5 million from the Subscription. Taking into consideration that Rong De is the controlling shareholder of the Company which is a connected person of the Company, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

The Subscription has been approved by the independent Shareholders at a special general meeting of the Company held on 31 December 2018. Completion of the Subscription took place on 2 January 2019 and 770,000,000 Shares were issued to Rong De at the Subscription Price of HK$1.30 per Subscription Share.

The Subscription represents a good opportunity for the Group to raise funds to strengthen its capital base and financial position and to support the development of its existing property development business which is a capital-intensive business.

(3) On 29 October 2018, the Company issued the Perpetual Securities in the aggregate principal of HK$800,000,000 at a distribution rate of 6% per annum to Rong De (the controlling shareholder of the Company). The Perpetual Securities have no fixed redemption date and are redeemable at the option of the Company at any time and from time to time, whether in whole or in part, at any time after its issue. While distribution is payable by the Company every six months, the Company may, at its sole discretion, elect to defer, in whole or in part, any distribution (including any arrears of distribution) to the next distribution payment date.

By virtue of Rong De being the controlling shareholder of the Company (i.e., it is a connected person of the Company), the issue of the Perpetual Securities by the Company to Rong De constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.90 and Rule 14A.74 of the Listing Rules, such issue of the Perpetual Securities is fully exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules, taking into consideration that it was conducted on normal commercial terms or better and it was financial assistance received by the Company from a connected person which was not secured by the assets of the Group.

The net proceeds from the issue of the Perpetual Securities were used for financing the corporate funding requirement of the Group.

Save for the connected transactions disclosed above, and the execution of guarantees by certain Directors and the execution of share charges by Rong De as mentioned in the paragraphs headed "EQUITY-LINKED AGREEMENTS", "2017 SENIOR NOTES", "CCBIS MARGIN LOAN" and "CINDA TERM LOAN FACILITY" in this directors' report, none of the related party transactions as set out in note 42 to the consolidated financial statements falls under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements (if any) in accordance with Chapter 14A of the Listing Rules during FY2018.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-Laws or the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during FY2018.

MANAGEMENT DISCUSSION AND ANALYSIS

A management discussion and analysis of the Group's annual results is shown on pages 8 to 26.

CORPORATE GOVERNANCE REPORT

A corporate governance report of the Group is shown on pages 56 to 75.

AUDIT COMMITTEE

During FY2018 and as at the date of this annual report, the Audit Committee comprises three independent non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Company's audited results for FY2018, and discussed with the management regarding audit, internal control and financial reporting matters.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules during FY2018 and up to the date of this annual report.

AUDITOR

With effect from 8 June 2016, the then auditor of the Company, RSM Hong Kong, resigned as the auditor of the Company and did not offer itself for re-appointment at the annual general meeting of the Company held on 29 June 2016. At the special general meeting of the Company held on 29 June 2016, PricewaterhouseCoopers was appointed as the auditor of the Company.

PricewaterhouseCoopers has resigned as the auditor of the Company with effect from 23 November 2018. At the special general meeting of the Company held on 21 December 2018, Ernst & Young was appointed as the auditor of the Company.

Ernst &Young will retire, and being eligible, offer itself for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of Ernst & Young as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board
Chu Hing Tsung
Chairman

Hong Kong, 29 March 2019

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Zhuguang Holdings Group Company Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Zhuguang Holdings Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 111 to 218, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment assessment on deposits for acquisition of equity interests in property development projects</td></tr>
<tr><td>As at 31 December 2018, the Group had deposits for acquisition of equity interests in property development projects with an aggregate carrying amount of approximately HK$7,321 million.

Management assessed the feasibility of these property development projects and recoverability of these balances by considering a number of factors, including but not limited to (i) the possibility of obtaining land titles of the entire property development areas for the intended purposes; (ii) creditworthiness of the counterparties, majority of which are related parties of the Group; and (iii) past collection history. Impairment arises where events or changes in circumstances indicate that the balance may not be collectible.

Management judgements and estimates were made in relation to the recoverability of the Group's deposits for acquisition of equity interests in property development projects.

We identified this as a key audit matter due to the materiality of the balance of the deposits to the consolidated financial statements of the Group and there was critical judgement involved in determining the assumptions and estimates used in the impairment assessment and provision for expected credit losses.

Related disclosures are included in notes 2.4, 3 and 22 to the consolidated financial statements.</td><td>We understood, evaluated and tested the internal control over management's assessment procedures over impairment on deposits for acquisition of equity interests in property development projects.

We evaluated management's assessment on recoverability or expected credit losses of the balances by performing the following procedures:

• We assessed the likelihood of obtaining commercial or residential land titles by enquiring management on the status of these projects. We obtained and examined the relevant supporting documents, including but not limited to the sale and purchase agreements, bank remittance advices, bank statements, original certificates of land use rights owned by the counterparties, development plans, correspondence with the counterparties and the relevant documentation of internal meetings, if applicable;

• We performed background research of these counterparties, and tested on a sample basis the accuracy of the ageing profile of these deposits by checking to the underlying payment correspondence;

• We reviewed the past collection history from these counterparties to the Group by checking the supporting documents, including bank remittance advices and bank statements, on a sample basis;

• We reviewed the profitability analysis prepared by management for these projects to assess the recoverability of the deposits;

• We involved our internal specialists to assist us to assess the provision for expected credit losses on the deposits recognised by the Group; and

• We assessed the adequacy of the disclosures regarding the provision for expected credit losses in the consolidated financial statements.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of other receivables at fair value through profit or loss	
As at 31 December 2018, the Group had other receivables of approximately HK$5,250 million (the "Other Receivables"), representing 15% of the total assets of the Group, in respect of the funds provided for property project development in the People's Republic of China. Pursuant to the relevant project management service agreements, the Group agreed to provide funds and management service to certain property development projects. In return, the Group is entitled to a fixed income being a certain percentage of the total funds provided and a variable bonus which is determined with reference to the operating performance of the projects. The Group has measured the Other Receivables at fair value through profit or loss under Hong Kong Financial Reporting Standard 9 *Financial Instruments* ("HKFRS 9"). Significant estimates were required by management in relation to the fair value measurement of the Other Receivables. The Group engaged an external valuer to determine the fair values of the Other Receivables at 1 January 2018 upon the adoption of HKFRS 9 and at the end of the reporting period. We identified this as a key audit matter because the carrying amount of the Other Receivables was significant to the Group, and significant estimations were involved in determining the fair values of the Other Receivables. Related disclosures are included in notes 2.4, 3 and 23 to the consolidated financial statements.	We discussed with management to understand the nature and background of the projects involved. We obtained profitability assessment of projects and evaluated the underlying assumptions, methodologies and inputs used in the estimation. We examined the title documents of land and other project development documents of the underlying projects. We performed site visits to evaluate the status of work and the existence of the projects. We evaluated the objectivity, independence and competence of the external valuer engaged by management of the Group and we also involved our internal valuation specialists to assist us in evaluating the valuation models, assumptions and parameters adopted in the valuation.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
As at 31 December 2018, the Group held investment properties with an aggregate carrying amount of approximately HK$4,011 million. The carrying amount of the investment properties represented 11% of the total assets of the Group as at 31 December 2018. The Group engaged an external valuer to determine the fair value of the investment properties at the end of the reporting period. We identified this as a key audit matter because the carrying amount of the investment properties was significant to the Group and significant estimations were involved in determining the fair value of the investment properties. The determination of the valuation models adopted also involved significant judgements. Related disclosures are included in notes 2.4, 3 and 14 to the consolidated financial statements.	We evaluated the objectivity, independence and competency of the external valuer engaged by management. We also involved our internal valuation specialists to assist us in evaluating the valuation models, assumptions, methodologies and parameters adopted in the valuation, on a sample basis. Our internal valuation specialists independently re-performed the valuation based on the market price, market rents, term yields, reversion yields and development profit of the properties located in the adjacent locations. We reviewed management's development plans and budgets with reference to statistics for estimated construction costs and signed construction contracts. We compared the valuations performed by the external valuer to the range of valuations provided by our internal valuation specialists. We further assessed the correctness of the property related data used as inputs for the valuation. We conducted site visits to investment properties under construction to observe the development. We also assessed the adequacy of the disclosures of the valuation of the investment properties in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

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

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

INDEPENDENT AUDITOR'S REPORT

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.

The engagement partner on the audit resulting in this independent auditor's report is Chow Chi Chung.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**2,704,796**	2,766,510
Cost of sales		**(1,617,009)**	(1,748,221)
Gross profit		**1,087,787**	1,018,289
Fair value gain on investment properties, net	14	**279,009**	43,100
Other income and gains	5	**468,528**	397,544
Selling and marketing expenses		**(84,038)**	(64,232)
Administrative expenses		**(254,078)**	(154,388)
Other expenses		**(172,087)**	(32,690)
Change in fair value of financial assets at fair value through profit or loss		**459,600**	—
Share of loss of an associate	18	**(12,760)**	—
PROFIT FROM OPERATIONS		**1,771,961**	1,207,623
Gain on bargain purchase of a subsidiary	36(a)	**–**	114,874
Finance costs	6	**(1,248,810)**	(939,346)
PROFIT BEFORE TAX	7	**523,151**	383,151
Income tax expense	10	**(445,299)**	(237,713)
PROFIT FOR THE YEAR		**77,852**	145,438
Attributable to:			
Equity holders of the parent		**4,717**	174,401
Non-controlling interests		**73,135**	(28,963)
		77,852	145,438
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (HK cents per share)	12	**(0.06)**	2.71

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR	**77,852**	145,438
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(379,037)**	231,044
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive income of an associate	**34,555**	—
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(344,482)**	231,044
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(266,630)**	376,482
Attributable to:		
Equity holders of the parent	**(337,588)**	385,843
Non-controlling interests	**70,958**	(9,361)
	(266,630)	376,482

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property and equipment	13	**227,288**	122,023
Investment properties	14	**4,010,984**	2,412,183
Intangible assets	15	**54,425**	59,946
Goodwill	16	**212,218**	17,010
Investment in a joint venture	17	**2,739**	—
Investment in an associate	18	**2,080,210**	—
Financial assets at fair value through profit or loss	23	**3,260,545**	14,200
Deferred tax assets	32	**66,088**	55,655
Total non-current assets		**9,914,497**	2,681,017
CURRENT ASSETS			
Properties under development	19	**4,165,756**	3,724,321
Completed properties held for sale	20	**3,405,772**	2,056,131
Trade and other receivables	21	**1,495,739**	4,514,301
Prepayments, deposits and other assets	22	**7,571,489**	6,423,300
Prepaid income tax		**202,567**	166,582
Financial assets at fair value through profit or loss	23	**2,059,530**	11,975
Restricted cash	24	**822,606**	357,585
Term deposits with initial terms of over three months	25	**5,625,869**	3,439,190
Cash and cash equivalents	26	**544,610**	778,542
Total current assets		**25,893,938**	21,471,927
CURRENT LIABILITIES			
Advances from customers	27	**—**	2,750,836
Contract liabilities	27	**2,845,669**	—
Trade and other payables	28	**3,682,758**	2,550,054
Interest-bearing bank and other borrowings	30	**9,485,319**	1,576,321
Amount due to the ultimate holding company	42(c)	**24,030**	880
Current income tax payables	31	**1,919,124**	1,692,453
Finance lease payable		**—**	658
Derivative financial instruments	29	**17,964**	81,944
Total current liabilities		**17,974,864**	8,653,146
NET CURRENT ASSETS		**7,919,074**	12,818,781
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,833,571**	15,499,798

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**9,659,836**	9,585,982
Deferred tax liabilities	32	**1,325,428**	731,243
Total non-current liabilities		**10,985,264**	10,317,225
Net assets		**6,848,307**	5,182,573
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	33	**642,441**	642,441
Perpetual capital securities	35	**800,000**	—
Reserves	34	**4,279,063**	4,215,690
Subscription monies received	33	**1,001,000**	—
		6,722,504	4,858,131
Non-controlling interests		**125,803**	324,442
Total equity		**6,848,307**	5,182,573

Chu Hing Tsung
Director

Ye Lixia
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		Attributable to equity holders of the parent													
	Notes	Share capital HK$'000 (note 33)	Share premium HK$'000	Merger reserve HK$'000 (note 34(i))	Exchange fluctuation reserve HK$'000	Contributed surplus HK$'000 (note 34(ii))	Statutory reserve HK$'000 (note 34(iii))	Capital reserve HK$'000 (note 34(iv))	Asset revaluation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Perpetual capital securities HK$'000 (note 35)	Subscription monies received HK$'000	Total HK$'000 (note 33)	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		642,441	4,640,287	(101,922)	(481,016)	239,404	6,668	–	–	(473,574)	–	–	4,472,288	333,803	4,806,091
Profit for the year		–	–	–	–	–	–	–	–	174,401	–	–	174,401	(28,963)	145,438
Other comprehensive income for the year:															
Exchange differences on translation of foreign operations		–	–	–	211,442	–	–	–	–	–	–	–	211,442	19,602	231,044
Total comprehensive income for the year		–	–	–	211,442	–	–	–	–	174,401	–	–	385,843	(9,361)	376,482
At 31 December 2017		642,441	4,640,287*	(101,922)*	(269,574)*	239,404*	6,668*	–	–	(299,173)*	–	–	4,858,131	324,442	5,182,573
Effect of adoption of HKFRS 9	2.2(a)	–	–	–	–	–	–	–	–	427,124	–	–	427,124	(8)	427,116
Effect of adoption of HKFRS 15	2.2(b)	–	–	–	–	–	–	–	–	(425)	–	–	(425)	8	(417)
At 1 January 2018 (restated)		642,441	4,640,287	(101,922)	(269,574)	239,404	6,668	–	–	127,526	–	–	5,284,830	324,442	5,609,272
Profit for the year		–	–	–	–	–	–	–	–	4,717	–	–	4,717	73,135	77,852
Other comprehensive income/(loss) for the year:															
Exchange differences on translation of foreign operations		–	–	–	(376,860)	–	–	–	–	–	–	–	(376,860)	(2,177)	(379,037)
Share of other comprehensive income of an associate		–	–	–	28,906	–	–	–	5,649	–	–	–	34,555	–	34,555
Total comprehensive income/(loss) for the year		–	–	–	(347,954)	–	–	–	5,649	4,717	–	–	(337,588)	70,958	(266,630)
Acquisition of non-controlling interests		–	–	–	–	–	–	(25,738)	–	–	–	–	(25,738)	(248,180)	(273,918)
Issuance of perpetual capital securities	35	–	–	–	–	–	–	–	–	–	800,000	–	800,000	–	800,000
Subscription monies received	33	–	–	–	–	–	–	–	–	–	–	1,001,000	1,001,000	–	1,001,000
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	(21,417)	(21,417)
At 31 December 2018		**642,441**	**4,640,287***	**(101,922)***	**(617,528)***	**239,404***	**6,668***	**(25,738)***	**5,649***	**132,243***	**800,000**	**1,001,000**	**6,722,504**	**125,803**	**6,848,307**

* These reserve accounts comprise the consolidated reserves of HK$4,279,063,000 (2017: HK$4,215,690,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**523,151**	383,151
Adjustments for:			
Finance costs	6	**1,248,810**	939,346
Interest income	5	**(411,194)**	(111,616)
Depreciation	7	**2,717**	3,527
Amortisation	7	**4,222**	4,424
Fair value (gain)/loss on derivative financial instruments, net	7	**(2,258)**	21,367
Impairment of financial assets	7	**45,978**	—
Reversal of provision for claims and administrative penalties	5	**(49,777)**	(26,306)
Gain on bargain purchase of a subsidiary	36(a)	**—**	(114,874)
Share of loss of an associate		**12,760**	—
Fair value gain on investment properties, net	14	**(279,009)**	(43,100)
Change in fair value of financial assets at fair value through profit or loss		**(459,600)**	—
		635,800	1,055,919
Decrease/(increase) in properties under development and completed properties held for sale		**134,510**	(35,148)
Increase in trade and other receivables		**(668,564)**	(1,568,965)
(Decrease)/increase in contract liabilities/advances from customers		**(177,163)**	589,638
(Decrease)/increase in trade and other payables		**(142,772)**	445,453
Increase in amount due to the ultimate holding company		**23,150**	—
Decrease in restricted cash		**150,933**	96,288
Cash (used in)/generated from operations		**(44,106)**	583,185
Interest paid		**(1,240,541)**	(971,107)
Corporate income tax paid		**(188,151)**	(284,958)
Net cash flows used in operating activities		**(1,472,798)**	(672,880)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits paid for acquisition of equity interests in property development projects		(5,718,114)	(3,354,130)
Refund of deposits for acquisition of equity interests in property development projects		3,356,780	1,966,214
Cash advances to related parties		–	(1,158,487)
Repayment of cash advances to related parties		3,744,309	–
Interest received		177,356	110,311
Acquisition of subsidiaries	36	62,078	(66,471)
Acquisition of an associate		(2,058,415)	–
Acquisition of a joint venture		(2,739)	–
Purchases of items of property and equipment	13	(113,179)	(67,701)
Proceeds from disposal of property and equipment	13	8	2
Additions of intangible assets	15	(458)	(349)
Additions of investment properties	14	(45,841)	–
Proceeds from disposal of financial assets at fair value through profit or loss		–	11,975
Increase in financial assets at fair value through profit or loss		(1,595,266)	–
(Increase)/decrease in term deposits with initial terms of over three months		(2,186,679)	20,915
Increase in restricted cash		(615,954)	–
Net cash flows used in investing activities		(4,996,114)	(2,537,721)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank and other borrowings		7,310,539	5,075,243
Repayment of bank and other borrowings		(2,543,349)	(2,579,463)
Proceeds from issue of senior notes		–	375,047
Redemption of warrants		(61,743)	(61,733)
Repayment of finance lease payables		(658)	(745)
Cash advances from related parties		300,444	99,190
Repayment of cash advances from related parties		–	(50,842)
Acquisition of non-controlling interests		(273,918)	–
Proceeds from issuance of perpetual capital securities	35	800,000	–
Subscription monies received	33	1,001,000	–
Dividend paid to non-controlling shareholders		(21,417)	–
Net cash flows from financing activities		6,510,898	2,856,697
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		41,986	(353,904)
Cash and cash equivalents at beginning of year		778,542	1,085,661
Effect of foreign exchange rate changes, net		(275,918)	46,785
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	544,610	778,542

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

1.1 CORPORATE AND GROUP INFORMATION

Zhuguang Holdings Group Company Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 1996.

During the year, the Company's principal activity was investment holding and the Company and its subsidiaries (collectively the "Group") were principally engaged in property development, property investment, property management and other property development related services in the mainland of the People's Republic of China (the "PRC" or "Mainland China").

In the opinion of the Company's directors (the "Directors"), the ultimate holding company of the Company is Rong De Investment Limited ("Rong De"), which is incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Graceful Link Limited (愉興有限公司)	Hong Kong	HK$2	–	100%	Property investment
Diamond Crown Limited (毅冠有限公司)	Hong Kong	HK$2	–	100%	Property investment
Speedy Full Limited (速溢有限公司)	Hong Kong	HK$2	–	100%	Property investment
Xianghe County Yijing Property Development Company Limited @ ^ (note (a)) (香河縣逸景房地產開發有限公司)	PRC/ Mainland China	RMB148,410,100	–	100%	Property development
Guangzhou City Runfa Property Company Limited @ ^ (note (a)) (廣州市潤發房地產有限公司)	PRC/ Mainland China	RMB132,880,000	–	100%	Property development

1.1 CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Hailian Building Company Limited * ^ (note (a)) (廣東海聯大廈有限公司)	PRC/ Mainland China	US$99,000,000	–	80%	Property development and property investment
Guangzhou Dong Gang He Zhong Property Company Limited @ ^ (note (a)) (廣州東港合眾房地產有限公司)	PRC/ Mainland China	RMB100,000,000	–	100%	Property development
Guangzhou Yu Ying Property Company Limited ("Yu Ying") * ^ (note (a)) (廣州御盈房地產有限公司)	PRC/ Mainland China	RMB160,000,000	–	100% (note (b))	Property development and property investment
Guangzhou City Runqi Property Company Limited @ ^ (note (a)) (廣州市潤啟房地產有限公司)	PRC/ Mainland China	RMB99,652,457	–	100%	Property development
Feng Shun Jia Rong Trading Company Limited # ^ ("Jia Rong") (notes (a) and (c)) (豐順佳榮貿易有限公司)	PRC/ Mainland China	RMB1,000,000	–	100%	Investment holding
Guangdong Xilong Property Development Company Limited # ^ ("Guangdong Xilong") (notes (a) and (c)) (廣東喜龍房地產開發有限公司)	PRC/ Mainland China	RMB120,000,000	–	100%	Property development and property investment
Guangzhou Yujie Trading Company Limited @ ^ (note (a)) (廣州愉捷貿易有限公司)	PRC/ Mainland China	RMB500,000	–	100%	Project management and property trading

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

1.1 CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Equity interest attributable to the Company Direct	Equity interest attributable to the Company Indirect	Principal activities
Fengshun Yujing Property Company Limited @ ^ (note (a)) (豐順御景房地產有限公司)	PRC/ Mainland China	RMB200,000,000	–	100%	Property development
Meizhou Yujing Property Company Limited @ ^ (note (a)) (梅州御景房地產有限公司)	PRC/ Mainland China	RMB1	–	100%	Property development
Zhongshan Zhuguang Property Company Limited @ ^ (note (a)) (中山市珠光房地產有限公司)	PRC/ Mainland China	RMB1	–	50%	Property development
Guangzhou Zhenchao Property Development Company Limited @ ^ (note (a)) (廣州振超房地產開發有限公司)	PRC/ Mainland China	RMB50,000,000	–	100%	Property development
Guangzhou Zhuguang Real Estate Company Limited @ ^ (note (a)) (廣州珠光置業有限公司)	PRC/ Mainland China	RMB30,000,000	–	100% (note (d))	Investment holding
Guangzhou Shunji Industry Company Limited @ ^ (note (a)) (廣州舜吉實業有限公司)	PRC/ Mainland China	RMB12,500,000	–	100%	Property development

Registered as domestic limited liability companies under the PRC law.

@ Registered as wholly-foreign-owned enterprises under the PRC law.

* Registered as sino-foreign equity entities under the PRC law.

^ Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

1.1 CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Notes:

(a) The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as they did not register any official English names.

(b) During the year, the Group acquired 30% of equity interest of Yu Ying. Yu Ying became the indirect wholly-owned subsidiary at 31 December 2018.

(c) The Directors are of the opinion that, notwithstanding the lack of equity ownership, in substance, based on certain contractual agreements, the Group has control over Jia Rong and Guangdong Xilong so as to obtain benefits from their activities. Accordingly, Jia Rong and Guangdong Xilong are accounted for as the Company's indirect wholly-owned subsidiaries for accounting purposes.

(d) During the year, the Group acquired 100% equity interests in Guangdong Zhuguang Real Estate Company Limited (廣州珠光置業有限公司) ("GD Zhuguang Real Estate"). Further details of this acquisition are included in note 36(b) to the financial statements.

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

1.2 BASIS OF PRESENTATION

As at 31 December 2018, the Group had cash and cash equivalents and term deposits (with initial terms of over three months) with an aggregate carrying amount of approximately HK$6,170 million, the majority of which are kept by the Group's subsidiaries in Mainland China. As at the same date, the Group had outstanding interest-bearing bank and other borrowings with an aggregate carrying amount of approximately HK$9,485 million which are due to be repaid within one year from the end of the reporting period, comprising offshore borrowings of approximately HK$5,371 million and onshore borrowings in Mainland China of approximately HK$4,114 million. In addition, as detailed in note 30 to the financial statements, the Group failed to comply with a financial covenant in respect of an offshore loan with a carrying amount of approximately HK$541 million as at 31 December 2018, which may become repayable on demand.

In preparing the financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that as at 31 December 2018, the Group had interest-bearing bank and other borrowings with an aggregate carrying amount of approximately HK$9,485 million which are due to be repaid within one year from the end of the reporting period, including a loan with a principal amount of approximately HK$550 million which may become repayable on demand. Furthermore, the Group had capital and other commitments contracted but not provided for in the consolidated financial statements of approximately HK$5,338 million as set out in note 41 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

1.2 BASIS OF PRESENTATION *(continued)*

Nevertheless, the financial statements were prepared based on the assumption that the Group can be operated as a going concern and the Directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 31 December 2018, after taking into consideration of the following:

(i) the available credit facilities of the Group;

(ii) the refinancing plan for the senior notes and bank and other loans of the Group; and

(iii) the estimated cash flows of the Group for the next twelve months from the end of the reporting period, in particular, with (a) the consideration of the upcoming plan for sales of its completed properties held for sale and pre-sale of its properties under development; and (b) the Group's plan to obtain alternative funding including offshore loans under cross-border guarantee arrangements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, financial assets at fair value through profit or loss and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Except for the amendments to HKFRS 2 and HKFRS 4, *and Annual Improvements to HKFRSs 2014-2016 Cycle,* which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Note	HKAS 39 measurement Category	HKAS 39 measurement Amount HK$'000	Re-classification HK$'000	ECL HK$'000	Fair value change HK$'000 (note (ii))	HKFRS 9 measurement Amount HK$'000	HKFRS 9 measurement Category
Financial assets								
Trade and other receivables		[1]L&R	4,514,301	(2,759,169)	(4,556)	–	1,750,576	[2]AC
To: Financial assets at fair value through profit or loss	(i)			(2,759,169)				
Financial assets at fair value through profit or loss		[3]FVPL	26,175	2,759,169	–	626,913	3,412,257	FVPL
From: Trade and other receivables	(i)			2,759,169				
Prepayments, deposits and other assets		L&R	6,423,300	–	(45,308)	–	6,377,992	AC
			10,963,776	–	(49,864)	626,913	11,540,825	
Other assets								
Deferred tax assets			55,655	–	6,795	–	62,450	
Other liabilities								
Deferred tax liabilities			731,243	–	–	156,728	887,971	

[1]L&R: Loans and receivables
[2]AC: Financial assets at amortised cost
[3]FVPL: Financial assets at fair value through profit or loss

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) (continued)

Classification and measurement *(continued)*

Notes:

(i) The Group has remeasured certain other receivables previously measured at amortised cost under the classification of loans and receivables in HKAS 39 at fair value through profit or loss as these amounts did not pass the solely payments of principal and interest characteristics test in HKFRS 9.

(ii) Further details of the fair value remeasurement are included in notes 21(a), 21(b) and 23(a) to the financial statements.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 21 and 22 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	HK$'000	HK$'000	HK$'000
Trade and other receivables	–	4,556	4,556
Prepayments, deposits and other assets	–	45,308	45,308
	–	49,864	49,864

Impact on retained profits/(accumulated losses) as at 1 January 2018

The impact of transition to HKFRS 9 on the Group's retained profits/(accumulated losses) is as follows:

	HK$'000
Accumulated losses balance as at 31 December 2017 as previously reported	(299,173)
Recognition of expected credit losses for trade and other receivables under HKFRS 9	(4,545)
Recognition of expected credit losses for prepayments, deposits and other assets under HKFRS 9	(45,308)
Recognition of fair value gain on financial assets at fair value through profit or loss	626,913
Deferred tax in relation to the above	(149,936)
Impact of adoption of HKFRS 9	427,124
Retained profits balance as at 1 January 2018 after the adoption of HKFRS 9	127,951
Impact of adoption of HKFRS 15 (note 2.2(b))	(425)
Retained profits balance as at 1 January 2018 as restated	127,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) (continued)

Impact on non-controlling interests

The impact of transition to HKFRS 9 on the Group's non-controlling interests is as follows:

	HK$'000
Balance as at 31 December 2017 as previously reported	324,442
Recognition of expected credit losses for trade and other receivables under HKFRS 9	(11)
Deferred tax in relation to alone	3
Impact of adoption of HKFRS 9	(8)
Balance as at 1 January 2018 after the adoption of HKFRS 9	324,434
Impact of adoption of HKFRS 15 (note 2.2(b))	8
Balance as at 1 January 2018 as restated	324,442

(b) HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of accumulated losses as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) (continued)

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Notes	**Increase/ (decrease)** HK$'000
Assets		
Properties under development	(i),(iii)	113,740
Total assets		113,740
Liabilities		
Advances from customers	(ii)	(2,750,836)
Contract liabilities	(i),(ii),(iii)	2,855,440
Current income tax payables	(i)	9,553
Total liabilities		114,157
Equity		
Increase in accumulated losses		(425)
Increase in non-controlling interests		8
		(417)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) (continued)

Consolidated statement of profit or loss for the year ended 31 December 2018:

		Amounts prepared under		
	Notes	**HKFRS 15** HK$'000	**Previous HKFRS** HK$'000	**Increase/ (decrease)** HK$'000
Revenue	(i),(iii)	2,704,796	2,565,601	139,195
Cost of sales	(i),(iii)	(1,617,009)	(1,484,638)	132,371
Gross profit		1,087,787	1,080,963	6,824
Selling and marketing expenses	(iv)	(84,038)	(115,946)	(31,908)
Finance costs	(iii)	(1,248,810)	(1,234,747)	14,063
Profit before tax		523,151	498,482	24,669
Income tax expense	(i),(iii),(iv)	(445,299)	(436,774)	8,525
Profit for the year		77,852	61,708	16,144
Attributable to:				
Equity holders of the parent		4,717	(10,647)	15,364
Non-controlling interests		73,135	72,355	780
		77,852	61,708	16,144
Loss per share attributable to ordinary equity holders of the parent				
Basic and diluted (HK cents per share)		(0.06)	(0.30)	0.24

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) (continued)

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
			Previous	**Increase/**
		HKFRS 15	**HKFRS**	**(decrease)**
	Notes	HK$'000	HK$'000	HK$'000
Properties under development	(iii)	4,165,756	4,067,507	98,249
Completed properties held for sale	(i),(iii)	3,405,772	3,538,143	(132,371)
Prepayments, deposits and other assets	(iv)	7,571,489	7,539,581	31,908
Total assets		35,808,435	35,810,649	(2,214)
Contract liabilities	(i),(ii),(iii)	2,845,669	—	2,845,669
Advances from customers	(ii)	—	2,872,552	(2,872,552)
Current income tax payables	(i),(iii),(iv)	1,919,124	1,910,599	8,525
Total liabilities		28,960,128	28,978,486	(18,358)
Net assets		6,848,307	6,832,163	16,144
Equity attributable to equity holders of the parent		6,722,504	6,707,140	15,364
Non-controlling interests		125,803	125,023	780
Total equity		6,848,307	6,832,163	16,144

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the consolidated statement of the financial position as at 31 December 2018 and the consolidated statement of profit or loss for the year ended 31 December 2018 are described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) (continued)

(i) Revenue from sale of properties

Prior to the adoption of HKFRS 15, the Group recognised revenue from sale of properties when significant risks and rewards of ownership have been transferred to the customers on delivery in its entirety at a single time upon vacant possession.

Under HKFRS 15, for properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method for measuring progress. The excess of cumulative revenue recognised in profit or loss over the cumulative payment from purchasers of properties is recognised as contract assets. The excess of cumulative payment from purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

As at 1 January 2018 and 31 December 2018, for those sales contracts with enforceable right to payment, the Group recognises property development revenue over time by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each property unit in the contract.

Upon adoption of HKFRS 15, decrease in opening contract liabilities and properties under development of HK$56,093,000 and HK$26,630,000, respectively, and increase in tax payable of HK$9,553,000 were resulted as at 1 January 2018.

For the year ended 31 December 2018, the adoption of HKFRS 15 resulted in increase in revenue of HK$16,113,000, cost of sales of HK$9,289,000 and income tax expenses of HK$3,266,000.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as advances from customers. Under HKFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$2,750,836,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$2,872,552,000 was classified as contract liabilities in relation to the consideration received from customers in advance for the sale of properties.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) (continued)

(iii) Significant financing component

Before the adoption of HKFRS 15, the Group presented consideration received from customers in connection with the Group's pre-sale of properties as advances from customers in the consolidated statement of financial position. No interest was accrued on the long-term advances received under the previous accounting policy. Under HKFRS 15, contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of financing components, if significant.

Therefore, upon adoption of HKFRS 15, HK$140,370,000 was capitalised and recorded in properties under development and HK$20,327,000 was adjusted to the opening accumulated losses, resulted in increase in HK$160,697,000 to contract liabilities for the effects of financing components as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

For the year ended 31 December 2018, HK$98,249,000 was capitalised and recorded in properties under development, and HK$14,063,000 and HK$912,000 were recorded as finance costs and tax credit, respectively, charged/credited to profit or loss, resulted in increase in HK$112,312,000 to contract liabilities for the effects of financing components.

In addition, HK$123,082,000 of completed properties held for sale and contract liabilities recorded as at 1 January 2018 due to the effect of financing components were transferred to cost of sales and revenue due to the hand over of properties during the year.

(iv) Costs of obtaining contracts

Prior to the adoption of HKFRS 15, the Group expensed off the sales commission associated with obtaining agreement for sale and purchase with property buyer. Upon adoption of HKFRS 15, sales commissions incurred directly attributable to obtaining a contract, if recoverable, are capitalised and recorded as costs for obtaining contracts included in prepayments, deposits and other assets. Capitalised sales commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as selling and marketing expenses at that time.

The adoption of HKFRS 15 has had no significant impact on the opening balance of accumulated losses or retained profits as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$31,908,000 was capitalised and recorded in prepayments, deposits and other assets in relation to the unamortised sales commission associated with obtaining agreement for the sale of properties, resulted in increase in tax expenses of HK$6,171,000.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(c) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(d) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Materal*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for early adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. As at 31 December 2018, the Group had non-cancellable operating lease commitments of HK$7,318,000 as disclosed in note 40. The assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for lease of low value assets or short-term leases discounted using the incremental borrowing rates at 1 January 2019.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of a joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates and joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and financial assets at fair value through profit or loss at fair value at the end of each reporting period. 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, properties under development, properties held for sale, land held for property development for sale, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and 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, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Motor vehicles	5 years
Furniture, fitting and equipment	3 to 5 years

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, 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 reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Land use rights

Land use rights are stated at cost and subsequently amortised on a straight line basis over the operating lease period of 36 years.

Software

Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

Properties under development

Properties under development for sale are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of total land and construction costs attributable to the unsold properties. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

Leases that transfer substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collet contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial asset are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investment as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set of for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings, amount due to the ultimate holding company, finance lease payables and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

(a) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are 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. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

(b) Senior notes

Senior notes issued by the Company that contain both liability and early redemption option components (which is not closely related to the host contract) are classified separately into respective items on initial recognition. At the date of issue, both the liability and early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the senior notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the senior notes are allocated to the liability and early redemption components in proportion to their relative fair values. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability components and amortised over the period of the senior notes using the effective interest method.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) *(continued)*

Subsequent measurement (continued)

(c) Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

(d) Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Perpetual capital securities

Perpetual capital securities with no contractual obligation to repay the principal or to pay any distribution are classified as part of equity.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, a joint venture and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, a joint venture and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when or as control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of properties

Revenue from sale of properties is recognised over time when the Group's performance under the sale contract does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; otherwise revenue from sale of property is recognised at a point in time.

For property sales contract for which the control of the property is transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation which is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the construction costs incurred up to the end of reporting period as a percentage of total estimated construction costs for each contract.

For property sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the purchaser obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018) *(continued)*

Revenue from contracts with customers (continued)

(b) Provision of project management services

Revenue from provision of project management services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

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

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of completed properties, when the significant risks and rewards of ownership of the properties are transferred to the purchasers, that is when the construction of the relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreements, and the collectability of related receivables is reasonably assured;

(b) rental income, on a time proportion basis over the lease terms; and

(c) project management income is recognised when the services have been rendered.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as properties under development and property and equipment, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

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

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

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Costs of obtaining contracts

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g., commission to sales agents. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions cannot be used to reduce the contributions payable by the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

Pension scheme (continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the "Pension Scheme") operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the Pension Scheme. The only obligation of the Group with respect to the Pension Scheme is to pay the ongoing contributions under the Pension Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Pension Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., 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. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they have been approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in HK$ which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on these monetary items are also recorded in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries and a joint venture operating outside Hong Kong are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into HK$ at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into HK$ at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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 these 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.

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development for sale included in current assets if the properties are intended for sale after its completion, whereas the properties are accounted for as investment properties under construction included in investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties. Investment properties, both under construction and completed, are subject to revaluation at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(continued)

Judgements *(continued)*

Allocation of construction cost on properties under development

When developing properties, the Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to each phase are allocated to each phase based on the saleable floor area of each phase as a percentage of the total saleable floor area of the entire project. The cost of the unit sold is determined by the floor area in square metres sold during the year multiplied by the average cost per square metre of that particular phase of the project.

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.

Impairment assessment on deposits for acquisition of equity interests in property development projects

The Group uses a probability of default approach to calculate ECLs for deposits for acquisition of equity interests in property development projects. Impairment losses on deposits for acquisition of equity interests in property development projects were measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The probability of default approach was the estimation of the likelihood of default over a given time horizon. It is defined as the probability of default of a counterparty over a one year period or over the remaining time to maturity depending on either 12-month expected credit losses or lifetime expected credit losses. Probability of default is initially estimated based on the credit rating of the borrower provided by external ratings agencies. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the counterparties. The Group will adjust the historical credit loss experience with an economic adjustment. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the property development sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's deposits for acquisition of equity interests in property development projects is disclosed in note 22 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(continued)

Estimation uncertainty *(continued)*

Fair value of financial assets at fair value through profit or loss

The Group had other receivables in respect of the funds provided for property project development in the PRC which are classified as financial assets at fair value through profit or loss. Pursuant to the relevant project management service agreements, the Group agreed to provide funds and management service to certain property development projects. In return, the Group is entitled to a fixed income being a certain percentage of the total funding provided and a variable bonus which is determined with reference to the operating performance of the projects. The fair values of these other receivables are determined based on the discounted cash flow projections which requires the Group to make an estimate of the expected future cash flows from the property development projects and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the other receivables stated at fair value through profit or loss at 31 December 2018 was HK$5,250,034,000. Further details are included in note 23 to the financial statements.

Estimation of fair value of investment properties

Investment properties were revalued at each reporting date based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each reporting date. The valuations of investment properties under construction were based on the residual approach, and have taken into account the expended construction costs and the costs that will be expended to complete the development to reflect the quality of the completed development on the basis that the properties will be developed and completed in accordance with the Group's latest development plan. The carrying amount of investment properties at 31 December 2018 was HK$4,010,984,000 (2017: HK$2,412,183,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Estimation of net realisable value of properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. The cost of each unit in each phase of development is determined using the weighted average method. The estimated net realisable value is the estimated selling price less selling expenses and the estimated cost of completion (if any), which are estimated based on the best available information.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development and completed properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

PRC corporate income tax ("CIT")

The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the tax authorities, objective estimates and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

PRC land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculation and payments with the tax authorities for certain of its property development projects. The final outcome could be different from the amounts that were initially recorded.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was HK$212,218,000 (2017: HK$17,010,000). Further details are given in note 16.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the property development segment engages in the development and sale of properties;

(b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation; and

(c) the project management services segment engages in the provision of project management services.

The Group's revenue from external customers from each operating segment is also set out in note 5 to the financial statements.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that the change in fair value of derivative financial instruments, share of loss of an associate, finance costs and income tax expenses are excluded from such measurement.

Segment assets exclude investments in a joint venture and an associate, deferred tax assets and unlisted investments classified as financial assets at fair value through profit or loss as these assets are managed on a group basis.

Segment liabilities exclude bank and other borrowings, current income tax payables, deferred tax liabilities, derivative financial instruments and finance lease payable as these liabilities are managed on a group basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018

	Property development HK$'000	Property investment HK$'000	Project management services HK$'000	Total HK$'000
Segment revenue: (note 5)				
Sales to external customers	2,527,991	164,690	12,115	2,704,796
Segment results	935,283	375,465	471,715	1,782,463
Reconciliation:				
Fair value gain on derivative financial instruments, net				2,258
Share of loss of an associate				(12,760)
Finance costs				(1,248,810)
Profit before tax				523,151
Income tax expense				(445,299)
Profit for the year				77,852
Segment assets	24,286,387	4,043,754	5,259,216	33,589,357
Reconciliation:				
Corporate and other unallocated assets				2,219,078
Total assets				35,808,435
Segment liabilities	6,458,379	94,078	–	6,552,457
Reconciliation:				
Corporate and other unallocated liabilities				22,407,671
Total liabilities				28,960,128
Other segment information:				
Depreciation	2,717	–	–	2,717
Amortisation	4,222	–	–	4,222
Capital expenditure*	113,179	45,841	–	159,020
Fair value gain on investment properties, net	–	279,009	–	279,009

* Capital expenditure consists of additions to property and equipment and investment properties excluding those arising from acquisition of a subsidiary.

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2017

	Property development HK$'000	Property investment HK$'000	Project management services HK$'000	Total HK$'000
Segment revenue: (note 5)				
Sales to external customers	2,262,085	139,992	364,433	2,766,510
Segment results	696,061	168,496	364,433	1,228,990
Reconciliation:				
Fair value loss on derivative financial instruments, net				(21,367)
Gain on bargain purchase of a subsidiary				114,874
Finance costs				(939,346)
Profit before tax				383,151
Income tax expense				(237,713)
Profit for the year				145,438
Segment assets	20,045,065	2,463,180	1,562,869	24,071,114
Reconciliation:				
Corporate and other unallocated assets				81,830
Total assets				24,152,944
Segment liabilities	5,223,413	78,357	—	5,301,770
Reconciliation:				
Corporate and other unallocated liabilities				13,668,601
Total liabilities				18,970,371
Other segment information:				
Depreciation	3,527	—	—	3,527
Amortisation	4,424	—	—	4,424
Capital expenditure*	71,520	—	—	71,520
Fair value gain on investment properties, net	—	43,100	—	43,100

* Capital expenditure consists of additions to property and equipment and investment properties.

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the segment assets of the Group are located in Mainland China. Accordingly, in the opinion of the Directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

Information about a major customer

For the year ended 31 December 2017, revenue of approximately HK$364,433,000 was derived from a single related party customer which was attributable to the project management services segment (note 5).

5. REVENUE, OTHER INCOME AND GAINS

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

	2018 **HK$'000**	2017 HK$'000
Revenue from contracts with customers		
Sale of properties	**2,527,991**	2,262,085
Project management services	**12,115**	364,433
Revenue from other sources		
Rental income from investment properties	**164,690**	139,992
	2,704,796	2,766,510

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Property development HK$'000	Project management services HK$'000	Total HK$'000
Type of goods or services			
Sale of properties	2,527,991	–	2,527,991
Project management services	–	12,115	12,115
Total revenue from contracts with customers	2,527,991	12,115	2,540,106
Timing of revenue recognition			
Goods transferred at a point in time	2,511,878	–	2,511,878
Goods transferred over time	16,113	–	16,113
Services transferred over time	–	12,115	12,115
Total revenue from contracts with customers	2,527,991	12,115	2,540,106

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 HK$'000
Sale of properties	2,302,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of properties

For property sales contract for which the control of the property is transferred over time, the performance obligation is satisfied over time by reference to the construction costs incurred up to the end of reporting period as a percentage of total estimated construction costs for each contract. For property sales contract for which the control of the property is transferred at a point in time, the performance obligation is satisfied when the physical possession or the legal title of the completed property is obtained by the purchaser.

Project management services

The performance obligation is satisfied over time as services are rendered and the consideration amount is linked to the operating performance of the project of the counterparty which gives rise to variable consideration subject to constraint.

An analysis of the Group's other income and gains is as follows:

	2018	2017
	HK$'000	HK$'000
Interest income	**411,194**	111,616
Foreign exchange differences, net	**—**	259,622
Fair value gain on derivative financial instruments	**2,258**	—
Reversal of provision for claims and administrative penalties	**49,777**	26,306
Others	**5,299**	—
	468,528	397,544

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	HK$'000	HK$'000
Interest on bank and other borrowings and senior notes	**1,358,346**	1,036,844
Less: interest capitalised	**(109,536)**	(97,498)
	1,248,810	939,346

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2018 HK$'000	2017 HK$'000
Cost of properties sold		**1,617,009**	1,748,221
Depreciation	13	**2,717**	3,527
Amortisation*	15	**4,222**	4,424
Fair value (gain)/loss on derivative financial instruments, net		**(2,258)**	21,367
Minimum lease payments under operating leases		**8,999**	8,486
Auditor's remuneration		**4,500**	4,000
Foreign exchange differences, net		**60,376**	(259,622)
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**99,324**	64,853
Retirement benefit scheme contributions		**4,528**	2,739
		103,852	67,592
Impairment of financial assets:			
Impairment of other receivables	21	**16,697**	—
Impairment of deposits	22	**29,281**	—
		45,978	—
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**23,996**	20,018

* The amortisation is included in "Administrative expenses" in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

8. DIRECTORS' REMUNERATION

Directors' and chief executive officer's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) 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:

	2018 HK$'000	2017 HK$'000
Fees	**1,440**	1,440
Other emoluments:		
Salaries, allowances and benefits in kind	**19,836**	18,449
Pension scheme contributions	**219**	201
	20,055	18,650
	21,495	20,090

The remuneration of each of the Directors is set out below:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
2018				
Executive directors:				
Mr. Chu Hing Tsung	–	3,000	18	3,018
Mr. Liao Tengjia	–	3,641	61	3,702
Mr. Huang Jiaue	–	2,360	61	2,421
Mr. Liu Jie*	–	7,216	61	7,277
Mr. Chu Muk Chi	–	960	18	978
Ms. Ye Lixia	–	2,659	–	2,659
	–	19,836	219	20,055
Independent non-executive directors:				
Mr. Leung Wo Ping	480	–	–	480
Mr. Wong Chi Keung	480	–	–	480
Dr. Feng Ke	480	–	–	480
	1,440	–	–	1,440
	1,440	19,836	219	21,495

8. DIRECTORS' REMUNERATION *(continued)*

The remuneration of each of the Directors is set out below: *(continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
2017				
Executive directors:				
Mr. Chu Hing Tsung	—	3,399	18	3,417
Mr. Liao Tengjia	—	4,190	55	4,245
Mr. Huang Jiaue	—	3,672	55	3,727
Mr. Liu Jie*	—	2,978	55	3,033
Mr. Chu Muk Chi	—	960	18	978
Ms. Ye Lixia	—	3,250	—	3,250
	—	18,449	201	18,650
Independent non-executive directors:				
Mr. Leung Wo Ping	480	—	—	480
Mr. Wong Chi Keung	480	—	—	480
Dr. Feng Ke	480	—	—	480
	1,440	—	—	1,440
	1,440	18,449	201	20,090

* Mr. Liu Jie is also the chief executive officer of the Company.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the current and prior years were all directors, details of whose remuneration are set out in note 8 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the cities in which the majority of the Group's subsidiaries operate.

	2018 **HK$'000**	2017 HK$'000
Current:		
PRC CIT	**214,696**	222,155
PRC LAT	**105,680**	60,961
	320,376	283,116
Deferred (note 32)	**124,923**	(45,403)
Total tax charge for the year	**445,299**	237,713

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for Mainland China in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate for the year, are as follows:

	2018 **HK$'000**	**%**	2017 HK$'000	%
Profit before tax	**523,151**		383,151	
Tax charge at the statutory income tax rate	**130,788**	**25.0**	95,788	25.0
Lower tax rate for specific provinces or enacted by local authority	**28,687**	**5.5**	(7,037)	(1.8)
Expenses not deductible for tax	**23,429**	**4.5**	54,545	14.2
Effect of gain on bargain purchase of a subsidiary	**–**	**–**	(28,718)	(7.5)
Income not subject to tax	**–**	**–**	(72,638)	(19.0)
Tax losses not recognised	**183,135**	**35.0**	144,879	37.8
PRC LAT	**105,680**	**20.2**	60,961	15.9
Tax effect on PRC LAT	**(26,420)**	**(5.1)**	(10,067)	(2.6)
Tax charge at the Group's effective rate	**445,299**	**85.1**	237,713	62.0

The share of tax expense attributable to an associate amounting to HK$788,000 (2017: Nil) was included in "Share of loss of an associate" in the consolidated statement of profit or loss.

11. DIVIDENDS

No dividend in respect of the year ended 31 December 2018 (2017: Nil) was proposed by the board of directors of the Company.

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted for the distribution related to perpetual capital securities, and the weighted average number of ordinary shares of 6,424,417,247 (2017: 6,424,417,247) in issue during the year.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the impact of the warrants had an anti-dilutive effect on the basic (loss)/earnings per share amounts presented.

The calculations of the basic and diluted (loss)/earnings per share are based on:

	2018	2017
Profit attributable to equity holders of the parent (HK$'000)	**4,717**	174,401
Distribution related to perpetual capital securities (HK$'000)	**(8,416)**	—
(Loss)/profit used in the basic and diluted earnings per share calculations (HK$'000)	**(3,699)**	174,401
Weighted average number of ordinary shares in issue during the year (thousand shares)	**6,424,417**	6,424,417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

13. PROPERTY AND EQUIPMENT

	Assets under construction HK$'000	Motor vehicles HK$'000	Furniture, fitting and equipment HK$'000	Total HK$'000
31 December 2018				
At 1 January 2018:				
Cost	112,437	17,211	6,868	136,516
Accumulated depreciation	–	(8,878)	(5,615)	(14,493)
Net carrying amount	112,437	8,333	1,253	122,023
At 1 January 2018, net of accumulated depreciation	112,437	8,333	1,253	122,023
Acquisition of a subsidiary (note 36(b))	–	–	154	154
Additions	112,270	–	909	113,179
Disposals	–	(8)	–	(8)
Depreciation provided during the year	–	(1,430)	(1,287)	(2,717)
Exchange realignment	(5,010)	(317)	(16)	(5,343)
At 31 December 2018, net of accumulated depreciation	219,697	6,578	1,013	227,288
At 31 December 2018:				
Cost	219,697	16,886	7,915	244,498
Accumulated depreciation	–	(10,308)	(6,902)	(17,210)
Net carrying amount	219,697	6,578	1,013	227,288

13. PROPERTY AND EQUIPMENT *(continued)*

	Assets under construction HK$'000	Motor vehicles HK$'000	Furniture, fitting and equipment HK$'000	Total HK$'000
31 December 2017				
At 1 January 2017:				
Cost	39,235	15,952	6,025	61,212
Accumulated depreciation	—	(5,693)	(4,393)	(10,086)
Net carrying amount	39,235	10,259	1,632	51,126
At 1 January 2017, net of accumulated depreciation	39,235	10,259	1,632	51,126
Additions	70,452	217	502	71,171
Disposals	—	(1)	(1)	(2)
Depreciation provided during the year	—	(2,601)	(926)	(3,527)
Exchange realignment	2,750	459	46	3,255
At 31 December 2017, net of accumulated depreciation	112,437	8,333	1,253	122,023
At 31 December 2017:				
Cost	112,437	17,211	6,868	136,516
Accumulated depreciation	—	(8,878)	(5,615)	(14,493)
Net carrying amount	112,437	8,333	1,253	122,023

At 31 December 2018, the Group's assets under construction with an aggregate carrying amount of HK$219,697,000 (2017: HK$112,437,000) were pledged to banks to secure certain of the bank and other borrowings granted to the Group (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

14. INVESTMENT PROPERTIES

	Completed	Under construction	Total
	HK$'000	HK$'000	HK$'000
Carrying amount at 1 January 2017	2,165,788	–	2,165,788
Transfer from completed properties held for sale	49,174	–	49,174
Net gains from fair value adjustments	43,100	–	43,100
Exchange realignment	154,121	–	154,121
Carrying amount at 31 December 2017 and 1 January 2018	**2,412,183**	**–**	**2,412,183**
Additions	**–**	**45,841**	**45,841**
Acquisition of a subsidiary (note 36(b))	**325,940**	**970,230**	**1,296,170**
Transfer from completed properties held for sale	**147,591**	**–**	**147,591**
Net gains from fair value adjustments	**234,239**	**44,770**	**279,009**
Exchange realignment	**(131,565)**	**(38,245)**	**(169,810)**
Carrying amount at 31 December 2018	**2,988,388**	**1,022,596**	**4,010,984**

The Group's investment properties were revalued on 31 December 2018 and 2017 based on valuations performed by Greater China Appraisal Limited, independent professionally qualified valuers.

At 31 December 2018, certain of the Group's investment properties with an aggregate carrying amount of HK$3,167,983,000 (2017: HK$2,344,640,000) were pledged to banks to secure certain of the bank and other borrowings granted to the Group (note 30).

The Group's completed investment properties are leased to third parties under operating leases, further summary details of which are included in note 40(a).

Fair value hierarchy

At 31 December 2018 and 2017, the fair value measurement of all of the Group's investment properties used significant unobservable inputs (Level 3) as defined in HKFRS 13.

In the opinion of the Directors, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use.

During the year, there were no transfers of fair value measurements between Level 1 (quoted prices in active markets) and Level 2 (significant observable inputs) and no transfers into or out of Level 3 (2017: Nil).

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports to the senior management of the Group. Discussions of valuation processes and results are held between management and the valuer at least once every six months, in line with the Group's annual reporting dates.

14. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

At each financial year end, the finance department:

- verifies all major inputs to the independent valuation report;
- assesses property valuations movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer.

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

			Range or weighted average	
	Valuation technique	**Significant unobservable inputs**	**2018**	2017
Completed				
Office	Term and reversionary method	Term yields	**3.5%**	3.5%
		Reversion yields	**4.0%**	4.0%
		Market rents (RMB/sq m/month)	**145-160**	120-145
Retail	Term and reversionary method	Term yields	**3.0%**	3.0%
		Reversion yields	**3.5%**	3.5%
		Market rents (RMB/sq m/month)	**120-455**	40-450
Hotel	Direct comparison method	Market price (RMB/sq m)	**36,000-36,700**	29,200-31,570
Under construction				
Office	Residual approach	Estimated annual rents (RMB/sq m)	**46,000-75,000**	—
		Capitalisation rate	**5.75%**	—
		Development profit	**6.0%**	—

The valuations of completed investment properties were based on either (i) the term and reversionary approach by capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary rental income potential of the properties, which is positively correlated to the market rental growth rate, and negatively correlated to term yields and reversion yields; or (ii) the direct comparison method by reference to comparable market transactions, which is positively correlated to the market unit sale rate.

The valuations of investment properties under construction were based on the residual approach, which is positively correlated to the estimated annual rental value per square metre and negatively correlated to the capitalisation rate and the development profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

15. INTANGIBLE ASSETS

	Land use rights HK$'000	Computer softwares HK$'000	Total HK$'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	**55,910**	**4,036**	**59,946**
Additions	**—**	**458**	**458**
Acquisition of a subsidiary (note 36(b))	**—**	**273**	**273**
Amortisation during the year	**(1,779)**	**(2,443)**	**(4,222)**
Exchange realignment	**(1,920)**	**(110)**	**(2,030)**
At 31 December 2018	**52,211**	**2,214**	**54,425**
At 31 December 2018:			
Cost	**88,518**	**15,983**	**104,501**
Accumulated amortisation	**(36,307)**	**(13,769)**	**(50,076)**
Net carrying amount	**52,211**	**2,214**	**54,425**
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	54,810	6,032	60,842
Additions	—	349	349
Amortisation during the year	(1,748)	(2,676)	(4,424)
Exchange realignment	2,848	331	3,179
At 31 December 2017	55,910	4,036	59,946
At 31 December 2017:			
Cost	88,211	15,114	103,325
Accumulated amortisation	(32,301)	(11,078)	(43,379)
Net carrying amount	55,910	4,036	59,946

The Group's intangible assets related to land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC, mainly for hotel buildings and other self-use buildings over fixed periods.

At 31 December 2018, the Group's land use rights with an aggregate carrying amount of HK$52,211,000 (2017: HK$55,910,000) were pledged to banks to secure certain of the bank borrowings granted to the Group (note 30).

16. GOODWILL

	HK$'000
Cost at 1 January 2017, net of accumulated impairment	15,868
Exchange realignment	1,142
At 31 December 2017	17,010
At 31 December 2017:	
Cost	38,165
Accumulated impairment	(21,155)
Net carrying amount	17,010
Cost at 1 January 2018, net of accumulated impairment	17,010
Acquisition of a subsidiary (note 36(b))	196,010
Exchange realignment	(802)
At 31 December 2018	212,218
At 31 December 2018:	
Cost	233,373
Accumulated impairment	(21,155)
Net carrying amount	212,218

Impairment testing of goodwill

The Group's goodwill acquired through a business combination from prior year was allocated to a cash-generating unit for the property development segment, which was principally engaged in the property development in the PRC, for impairment testing. The recoverable amount of the cash-generating unit of the property development segment was determined based on a value-in-use calculation using a cash flow projection based on the expected future cash flows estimated by management. The discount rate applied to the cash flow projection is 12.96% (2017: 12.96%).

The Group's goodwill acquired through a business combination in the current year was allocated to a cash-generating unit for the property development segment, which was principally engaged in the property development in the PRC, for impairment testing. The recoverable amount of the related cash-generating unit of the property development segment was determined based on a value-in-use calculation using a cash flow projection based on a financial budget covering a three-year period approved by senior management.

16. GOODWILL *(continued)*

Impairment testing of goodwill *(continued)*

The development project acquired in the current year comprises 2 phases. As at 31 December 2018, Phases I was completed and the properties were substantially sold to and handed over to the purchasers and Phases II was still not yet completed. Management estimated that the properties of both phases shall be completely sold to and handed over to the buyers by the end of 2021. In view of the expected tenure of the business, the financial budget only covered a three-year period and no perpetual growth rate was applied in the calculation of value-in-use. The discount rate applied to the cash flow projection of the cash-generating unit was 9.5%.

Assumptions were used in the value-in-use calculation of the above mentioned property development segment's cash-generating unit for 31 December 2018 and 2017. The following describes each key assumption on which management had based its cash flow projections to undertake impairment testing of goodwill:

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

Business environment — There was no major change in the existing political, legal and economic conditions in the PRC in which the cash-generating unit carried on its business.

17. INVESTMENT IN A JOINT VENTURE

	2018 **HK$'000**	2017 HK$'000
Share of net assets	**2,739**	—

Particulars of the Group's joint venture are as follows:

Company name	Registered and paid-up capital	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Guangzhou Kezhu Real Estate Investment Company Limited @ (廣州科珠置業投資有限公司)	RMB6,000,000	PRC/ Mainland China	40%	50%	40%	Investment holding

@ Registered as a domestic limited liability company under the PRC law.

The English name of the entity represents the best effort made by management of the Company to directly translate its Chinese name as it did not register any official English name.

The above joint venture is indirectly held by the Company and is not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

18. INVESTMENT IN AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
Share of net assets	**1,878,307**	—
Goodwill on acquisition	**201,903**	—
	2,080,210	—

Particulars of the Group's associate are as follows:

Company name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activities
Silver Grant International Industries Limited ("Silver Grant") (銀建國際實業有限公司)	Ordinary shares of 681,240,022	Hong Kong	29.56%	Investment holding, property leasing, provision of petrochemical products and provision of sub-contracting services

The Group's shareholding in the associate comprises equity shares held by a wholly-owned subsidiary of the Company.

The above associate was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

During the year, the Group acquired 29.56% of equity interest in Silver Grant for an aggregate cash consideration of approximately HK$2,058,415,000. The Directors consider that the Group can only exercise significant influence over Silver Grant based on its board composition and current shareholding, and accordingly it is classified as an associate of the Group. The associate is accounted for using the equity method in the financial statements. For the period from its acquisition to 31 December 2018, share of loss of HK$12,760,000 of the associate was included in the Group's profit or loss. The fair values of the identifiable assets and liabilities of Silver Grant at the completion date of the acquisition for initial accounting purpose are determined on a provisional basis as the Group is in the process of completing the independent valuations. They may be adjusted upon the completion of the initial accounting year which shall not exceed one year from the acquisition date.

At 31 December 2018, the Group's investment in an associate with an aggregate carrying amount of HK$2,080,210,000 (2017: Nil) was pledged to secure certain of the bank and other borrowings granted to the Group (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

18. INVESTMENT IN AN ASSOCIATE *(continued)*

The following table illustrates the summarised financial information in respect of Silver Grant adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 HK$'000
Current assets	2,938,939
Non-current assets, excluding goodwill	7,104,682
Current liabilities	(2,234,416)
Non-current liabilities	(1,454,987)
Net assets, excluding goodwill	6,354,218
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	29.56%
Group's share of net assets of the associate, excluding goodwill	1,878,307
Goodwill on acquisition	201,903
Carrying amount of the investment	2,080,210
Revenue	511,746
Loss for the year	166,167
Other comprehensive loss for the year	322,925
Total comprehensive loss for the year	489,092
Fair value of the Group's investment as at 31 December 2018 based on the market price of the associate's shares	1,042,297
Post-acquisition loss of the associate	(43,167)
Proportion of the Group's ownership	29.56%
Group's share of loss of the associate	(12,760)

19. PROPERTIES UNDER DEVELOPMENT

	2018 HK$'000	2017 HK$'000
Properties under development expected to be completed within normal operating cycle and classified as current assets are expected to be recoverable:		
Within one year	**2,394,005**	2,257,755
After one year	**1,771,751**	1,466,566
	4,165,756	3,724,321

At 31 December 2018, certain of the Group's properties under development with an aggregate carrying amount of HK$1,319,733,000 (2017: HK$1,399,277,000) were pledged to secure certain of the bank and other borrowings granted to the Group (note 30).

20. COMPLETED PROPERTIES HELD FOR SALE

At 31 December 2018, certain of the Group's completed properties held for sale with an aggregate carrying amount of HK$640,613,000 (2017: HK$305,738,000) were pledged to secure certain of the bank and other borrowings granted to the Group (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

21. TRADE AND OTHER RECEIVABLES

	Notes	31 December 2018 HK$'000	1 January 2018 HK'000	31 December 2017 HK'000
Trade receivables				
Related parties	(a)	**9,182**	2,306	368,875
Third parties		**38,263**	34,356	34,356
		47,445	36,662	403,231
Other receivables				
Related parties	(a),(b),(c)	**160,781**	1,204,589	3,597,189
Third parties	(d)	**1,307,963**	513,881	513,881
		1,468,744	1,718,470	4,111,070
		1,516,189	1,755,132	4,514,301
Impairment allowance		**(20,450)**	(4,556)	—
		1,495,739	1,750,576	4,514,301

An ageing analysis of the trade receivables as at the end of the reporting period, based on the revenue recognition date or invoice date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Current to 180 days	**27,118**	200,761
181 to 365 days	**14,311**	4,254
Over 365 days	**6,016**	198,216
	47,445	403,231

Impairment under HKFRS 9 for the year ended 31 December 2018

The financial impact of expected credit losses for trade receivables under HKFRS 9 is insignificant for the year ended 31 December 2018.

21. TRADE AND OTHER RECEIVABLES *(continued)*

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	396,164
Less than 90 days past due	4,889
181 days to 365 days past due	2,178
	403,231

Receivables that were past due but not impaired had a good track record with the Group. Based on past experience, the Directors were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

The movements in the loss allowance for impairment of other receivables are as follows:

	2018 **HK$'000**
At beginning of year as previously reported	**–**
Effect of adoption of HKFRS 9	**4,556**
At beginning of year (restated)	**4,556**
Impairment losses (note 7)	
New receivables	**20,113**
Receivables settled during the year	**(4,454)**
Changes in risk parameters	**1,038**
	16,697
Exchange realignment	**(803)**
At end of year	**20,450**

Where applicable, an impairment analysis is performed on the Group's other receivables at each reporting date by considering the probability of default of the counterparties or comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied ranged from 0.8% to 4.4% and the loss given default was estimated from 55.4% to 61.4%. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for where there are no comparable companies as at 31 December 2018 was 0.08%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

21. TRADE AND OTHER RECEIVABLES *(continued)*

Notes:

(a) As at 31 December 2017, HK$1,196,300,000 (equivalent to RMB1,000,000,000) of other receivables from a related party represented funds for project development. Pursuant to a project management service agreement entered in April 2015, the Group agreed to provide funds and management service to a property development project (the "Project Guangzhou") in Guangzhou, the PRC. In return, the Group will be entitled to (i) a fixed income being a percentage of the total funds provided for the Project Guangzhou; and (ii) a variable bonus which is determined with reference to the operating performance of the Project Guangzhou.

The above other receivable was reclassified as financial assets at fair value through profit or loss as at 1 January 2018 as this amount did not pass the solely payments of principal and interest characteristics test in HKFRS 9 and a fair value gain of HK$221,665,000 was recognised and credited to the opening balance of accumulated losses as at 1 January 2018.

As at 31 December 2017, included in the trade receivables from related parties was a trade receivable of HK$366,569,000 in respect of the revenue recognised for the year ended 31 December 2017 from the Project Guangzhou.

(b) As at 31 December 2017, HK$1,196,300,000 (equivalent to RMB1,000,000,000) of other receivables from a related party represented funds for project development. Pursuant to a project management service agreement entered in December 2017, the Group agreed to provide funds and management service to a property development project (the "Project Beijing") in Beijing, the PRC. In return, the Group will be entitled to (i) a fixed income being a percentage of the total funds provided for the Project Beijing; and (ii) a variable bonus which is determined with reference to the operating performance of the Project Beijing.

The above other receivable was reclassified as financial assets at fair value through profit or loss as at 1 January 2018 as this amount did not pass the solely payments of principal and interest characteristics test in HKFRS 9 and a fair value gain of HK$405,248,000 was recognised and credited to the opening balance of accumulated losses as at 1 January 2018.

(c) As at 31 December 2017, HK$1,204,589,000 of other receivables from a related party represented refundable deposits of HK$542,065,000 (RMB450,000,000) and HK$662,524,000 (RMB550,000,000), respectively, paid to a related party pursuant to the memoranda of understanding ("MoU") for an asset acquisition and joint land bidding. The MoU were subsequently terminated and the balances were refunded to the Group in the current year.

(d) As at 31 December 2018, HK$337,631,000 (2017: HK$325,437,000) of other receivables from third parties represented a project deposit to a contractor of the Group, which was unsecured, with an interest rate of 12% per annum and repayable on demand.

22. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Prepayments or deposits to related parties:		
For acquisition of equity interests in property development projects (note)	**4,724,941**	4,426,310
For decoration services	**—**	168,211
Prepayments or deposits to third parties:		
For acquisition of equity interests in property development projects (note)	**2,596,365**	1,748,859
Prepaid construction costs and others	**184,515**	11,225
Prepaid business taxes and other levies	**88,107**	68,695
Cost of obtaining contracts	**31,908**	—
Others	**17,119**	—
	7,642,955	6,423,300
Impairment allowance	**(71,466)**	—
	7,571,489	6,423,300

Note:

As at 31 December 2018, the Group had paid deposits with an aggregate amount of HK$7,321,306,000 (2017: HK$6,175,169,000) to invest in private project companies in the PRC. The deposits were to acquire equity interests in certain PRC entities, which own land use rights or property development projects in the PRC.

As at 31 December 2018, deposits of HK$4,724,941,000 (2017: HK$4,426,310,000) were paid to Guangdong Zhuguang Group Company Limited and its subsidiaries (related parties of the Group), as an authorised agent of the Group for the proposed acquisitions of equity interests of certain entities which own certain land use rights or property development projects in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

22. PREPAYMENTS, DEPOSITS AND OTHER ASSETS *(continued)*

The movements in the loss allowance for impairment of financial assets included in prepayments, deposits and other assets are as follows:

	2018 HK$'000
At beginning of year as previously reported	–
Effect of adoption of HKFRS 9	45,308
At beginning of year (restated)	45,308
Impairment losses (note 7)	
New receivables	54,269
Receivables settled during the year	(32,384)
Changes in risk parameters	7,396
	29,281
Exchange realignment	(3,123)
At end of year	71,466

Where applicable, an impairment analysis is performed on the Group's deposits and other assets at each reporting date by considering the probability of default of the counterparties or comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied ranged from 0.3% to 4.4% and the loss given default was estimated from 55.4% to 62.3%. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for where there are no comparable companies as at 31 December 2018 was 0.08%.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	31 December 2018 HK$'000	1 January 2018 HK'000	31 December 2017 HK'000
Other receivables, at fair value	(a)	**5,250,034**	3,386,082	—
Other unlisted investments, at fair value	(b)	**70,041**	26,175	26,175
		5,320,075	3,412,257	26,175
Portion classified as current assets		**(2,059,530)**	(801,057)	(11,975)
Non-current portion		**3,260,545**	2,611,200	14,200

Notes:

(a) As at 31 December 2018, the other receivables of HK$5,250,034,000 at fair value represented funds provided to certain related parties for property project development in the PRC which are classified as financial assets at fair value through profit or loss. Pursuant to the relevant project management service agreements, the Group agreed to provide funds and management service to certain property development projects. In return, the Group is entitled to a fixed income being a certain percentage of the total funds provided and a variable bonus which is determined with reference to the operating performance of the projects. An aggregate amount of HK$2,759,169,000 as at 1 January 2018 was reclassified from trade and other receivables to financial assets at fair value through profit or loss and a fair value gain of HK$626,913,000 was recognised and credited to the opening balance of accumulated losses as at 1 January 2018 upon the adoption of HKFRS 9. The fair value of the other receivables is determined based on the discounted cash flow projections based on the expected future cash flows from the property development projects estimated by management. The discount rate applied to the cash flow projections ranged from 13.5% to 13.7% (1 January 2018: ranged from 8.6% to 11.4%).

(b) At 31 December 2018, the Group subscribed for certain unlisted PRC investment funds for an aggregate amount of HK$70,041,000 (2017: HK$26,175,000). The investment funds are managed with expected returns equal to the one-year prevailing saving interest rate quoted by the People's Bank of China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

24. RESTRICTED CASH

	2018 HK$'000	2017 HK$'000
Guarantee deposits for construction projects	**203,565**	337,030
Guarantee deposits for payment of wages	**3,087**	20,555
Term deposits with initial terms of over three months pledged for bank borrowings granted to the Group (note 30(a)(vi))	**615,954**	—
	822,606	357,585

24. RESTRICTED CASH *(continued)*

Pursuant to the relevant regulations in the PRC, certain property development companies of the Group are required to place at designated bank accounts certain amounts of pre-sale proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees for the relevant property projects. The deposits will be released after completion of related pre-sold properties or issuance of the real estate ownership certificate of the properties, whichever is the earlier. As at 31 December 2018, such guarantee deposits amounted to HK$203,565,000 (2017: HK$337,030,000).

The Group is required to place deposits in designated bank accounts solely for settlement of the Group's payable to construction workers. The deposits will only be released after completion of the relevant property development project. As at 31 December 2018, such guarantee deposits amounted to HK$3,087,000 (2017: HK$20,555,000).

25. TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS

At 31 December 2018, the Group had term deposits with initial terms of over three months denominated in RMB with an aggregate amount of HK$5,625,869,000 (2017: HK$3,439,190,000). The weighted average effective interest rate of the Group's term deposits with initial terms of over three months as at 31 December 2018 is 1.84% per annum (2017: 1.69% per annum).

26. CASH AND CASH EQUIVALENTS

	2018	2017
	HK$'000	HK$'000
Cash and bank balances:		
Denominated in RMB	**536,636**	424,566
Denominated in HK$	**6,811**	40,077
Denominated in US$	**1,163**	313,899
	544,610	778,542

Notes:

(a) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. All the bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

(b) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. ADVANCES FROM CUSTOMERS AND CONTRACT LIABILITIES

Advances from customers and contract liabilities represent sales proceeds received from buyers in connection with the Group's pre-sale of properties. The balance of receipts in advance in prior year was reclassified to contract liabilities upon the adoption of HKFRS 15.

The increase in balance of contract liabilities was mainly due to the addition of contracted sales during the year.

28. TRADE AND OTHER PAYABLES

	Notes	2018 HK$'000	2017 HK$'000
Trade payables	(a)	**2,421,382**	1,601,388
Amounts due to related parties	(b)	**390,686**	105,780
Other payables and accruals	(c)	**541,340**	517,192
Other taxes payables	(c)	**329,350**	302,658
Others		**–**	23,036
		3,682,758	2,550,054

Notes:

(a) An ageing analysis of the trade payables as at the end of the reporting period, based on the due date, is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**2,387,649**	1,414,459
Over 1 year	**33,733**	186,929
	2,421,382	1,601,388

The trade payables are non-interest-bearing and unsecured.

(b) The amounts due to related companies are unsecured, interest-free and repayable on demand.

(c) Other payables and accruals and other taxes payables are non-interest-bearing and are expected to be settled within one year.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 HK$'000	2017 HK$'000
2014 Warrants II	–	61,743
2016 Warrants	17,964	20,201
	17,964	81,944

Concurrent with the issuance of certain senior notes 2014 in early 2015, nil-paid warrants (the "2014 Warrants II") representing a total amount of exercise moneys of US$20 million (the exchange rate to be used for the purchase of HK$ with US$ shall be HK$7.8 per US$1.0) were granted by the Company to these investors to subscribe for 65,606,863 ordinary shares of the Company at an initial exercise price of HK$2.3778 per ordinary share of the Company, which are subject to certain anti-dilutive adjustments. The 2014 Warrants II are exercisable at any time up to 36 months from the issue date of such warrant. In addition, any warrant holder may, at any time during the redemption period (i.e. the period of one month commencing after the exercise period) by giving not less than 7 business days notice, require the Company to redeem in whole or in part the 2014 Warrants II of which such warrant holder is the registered holder at the redemption price equal to a function of the unexercised subscription amount of the warrant being redeemed. The redemption price shall be settled in cash. During the year, the 2014 Warrants II were redeemed at the redemption price of HK$61,743,000.

Details of the 2016 Warrants are set out in note 30(b) to the financial statements.

The above warrants were measured at their fair values on 31 December 2018 and 2017. The fair values (categorised as level 3 measurement under HKFRS 13) of the warrants were based on a valuation, using trinomial tree method, carried out by an independent qualified professional valuer and approved by the Directors. The significant unobservable inputs used in the fair value measurement are expected volatility and effective interest rate.

30. BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank borrowings — secured	3.23%-11.50%	2019	3,182,717	2.54%-9.50%	2018	227,089
Other borrowings — secured	7.51%-12.40%	2019	2,531,409	9.50%-11.00%	2018	1,349,232
Other borrowings — unsecured	12%	2019	220,000			—
2016 Senior Notes	11.00%	2019	3,170,969			—
2017 Senior Notes	8.00%	2019	380,224			—
			9,485,319			1,576,321
Non-current						
Bank borrowings — secured	5.27%-11.50%	2020-2021	2,478,661	6.65%-9.50%	2019-2020	1,034,523
Other borrowings — secured	7.51%-12.40%	2020-2022	7,181,175	9.50%-11.00%	2019-2022	5,073,960
2016 Senior Notes			–	11.00%	2019	3,096,776
2017 Senior Notes			–	8.00%	2019	380,723
			9,659,836			9,585,982
			19,145,155			11,162,303

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

30. BANK AND OTHER BORROWINGS *(continued)*

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank borrowings repayable:		
Within one year or on demand	**3,182,717**	227,089
In the second year	**1,315,144**	2,767
In the third to fifth years, inclusive	**1,163,517**	1,031,756
	5,661,378	1,261,612
Other borrowings repayable:		
Within one year or on demand	**2,751,409**	1,349,232
In the second year	**3,010,008**	1,764,653
In the third to fifth years, inclusive	**4,171,167**	3,309,307
	9,932,584	6,423,192
Senior notes:		
Within one year or on demand	**3,551,193**	–
In the second year	**–**	3,477,499
	3,551,193	3,477,499
	19,145,155	11,162,303

30. BANK AND OTHER BORROWINGS *(continued)*

Notes:

(a) Certain of the Group's bank and other borrowings are secured or guaranteed by:

(i) pledges over the Group's assets under construction with an aggregate carrying amount at the end of the reporting period of approximately HK$219,697,000 (2017: HK$112,437,000) (note 13);

(ii) pledges over the Group's investment properties with an aggregate carrying amount at the end of the reporting period of approximately HK$3,167,983,000 (2017: HK$2,344,640,000) (note 14);

(iii) pledges over the Group's intangible assets with an aggregate carrying amount at the end of the reporting period of approximately HK$52,211,000 (2017: HK$55,910,000) (note 15);

(iv) pledges over the Group's properties under development with an aggregate carrying amount at the end of the reporting period of approximately HK$1,319,733,000 (2017: HK$1,399,277,000) (note 19);

(v) pledges over the Group's completed properties held for sale with an aggregate carrying amount at the end of the reporting period of approximately HK$640,613,000 (2017: HK$305,738,000) (note 20);

(vi) pledges over the Group's term deposits with initial terms of over three months with an aggregate carrying amount at the end of the reporting period of approximately HK$615,954,000 (2017: Nil) (note 25);

(vii) pledges over the Group's investment in an associate with an aggregate carrying amount at the end of the reporting period of approximately HK$2,080,210,000 (2017: Nil) (note 18);

(viii) pledges over the Company's equity interest executed by the Company's ultimate holding company for borrowings of the Group amounting to HK$471,977,000 (2017: Nil) as at the end of the reporting period;

(ix) pledges over the equity interests of the Group's certain subsidiaries for borrowings of the Group amounting to HK$6,809,775,000 (2017: HK$4,826,523,000) as at the end of the reporting period;

(x) corporate guarantees executed or security provided by the Company's ultimate holding company for the senior notes of the Group amounting to HK$3,551,193,000 (2017: HK$3,477,499,000) as at the end of the reporting period;

(xi) corporate guarantees executed by the Company for borrowings of the Group amounting to HK$11,626,845,000 (2017: HK$4,429,304,000) as at the end of the reporting period; and

(xii) personal guarantee executed by certain directors for borrowings of the Group amounting to HK$11,338,808,000 (2017: HK$4,726,238,000) as at the end of the reporting period.

30. BANK AND OTHER BORROWINGS *(continued)*

Notes: *(continued)*

(b) On 4 August 2016 and 23 September 2016 respectively, the Company issued 3-year secured and guaranteed senior notes ("2016 Senior Notes"), with an aggregate principal amount of US$190,000,000 and US$220,000,000 respectively. The net proceeds, after deducting the issuance costs, amounted to US$389,552,000 (equivalent to approximately HK$3,021,818,000). The 2016 Senior Notes are denominated in US$, due on 3 August 2019 and 22 September 2019, and with an interest rate at 11% per annum.

Concurrent with the issuance of the 2016 Senior Notes, nil-paid warrants (the "2016 Warrants") representing a total amount of exercise moneys of US$61,500,000 (the exchange rate to be used for the purchase of HK$ with US$ shall be HK$7.8 per US$1.0) were granted to these investors to subscribe for 239,909,977 ordinary shares of the Company at an initial exercise price of HK$1.9995 per ordinary share of the Company, which are subject to certain anti-dilutive adjustments. The 2016 Warrants are exercisable at any time up to 36 months from the issue date of such warrant. Pursuant to the rights issue in 2016, the exercise price of 2016 Warrants was downward adjusted to HK$1.8049 per ordinary share of the Company.

(c) On 13 December 2017, the Company issued 2-year secured and guaranteed senior notes ("2017 Senior Notes"), with an aggregate principal amount of US$50,000,000. The net proceeds, after deducting the issuance costs, amounted to US$48,474,000 (equivalent to approximately HK$378,412,000). The 2017 Senior Notes are denominated in US$, due on 12 December 2019, and with an interest rate at 8% per annum.

(d) The Group's bank and other borrowings with carrying amounts of HK$1,569,398,000 (2017: Nil), HK$13,773,675,000 (2017: HK$7,528,467,000) and HK$3,802,082,000 (2017: HK$3,633,836,000) are denominated in HK$, RMB and US$, respectively.

(e) As at 31 December 2018, the Group failed to comply with a financial covenant in respect of an other loan with a carrying amount of HK$540,922,000, which may become repayable on demand and has been classified as a current liability as at 31 December 2018.

31. CURRENT INCOME TAX PAYABLES

	2018 **HK$'000**	2017 HK$'000
PRC corporate income tax payable	**1,098,081**	973,727
PRC land appreciation tax payable	**821,043**	718,726
	1,919,124	1,692,453

32. DEFERRED TAX

Net deferred tax assets and liabilities recognised in the consolidated statement of financial position are as follows:

	2018 HK$'000	2017 HK$'000
Deferred tax assets recognised in the consolidated statement of financial position	**66,088**	55,655
Deferred tax liabilities recognised in the consolidated statement of financial position	**(1,325,428)**	(731,243)
	(1,259,340)	(675,588)

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

Deferred tax assets

	Impairment of other receivables and deposits HK$'000	Temporary difference on LAT HK$'000	Total HK$'000
At 1 January 2017	—	31,302	31,302
Credited to profit or loss during the year (note 10)	—	22,158	22,158
Exchange realignment	—	2,195	2,195
At 31 December 2017	—	55,655	55,655
Effect of adoption of HKFRS 9	6,795	—	6,795
1 January 2018 (restated)	**6,795**	**55,655**	**62,450**
Credited to profit or loss during the year (note 10)	**5,405**	**—**	**5,405**
Exchange realignment	**(227)**	**(1,540)**	**(1,767)**
At 31 December 2018	**11,973**	**54,115**	**66,088**

32. DEFERRED TAX *(continued)*

Deferred tax liabilities

	Fair value adjustments of financial assets at fair value through profit or loss HK$'000	Temporary difference on revaluation gains of investment properties HK$'000	Fair value adjustments on business combinations HK$'000	Undistributed profits of PRC subsidiaries HK$'000	Temporary difference on LAT HK$'000	Total HK$'000
At 1 January 2017	–	382,475	207,886	9,259	788	600,408
Charged/(credited) to profit or loss during the year (note 10)	–	29,907	(53,152)	–	–	(23,245)
Exchange realignment	–	27,841	8,118	647	55	36,661
Acquisition of a subsidiary	–	–	117,419	–	–	117,419
At 31 December 2017	–	440,223	280,271	9,906	843	731,243
Effect of adoption of HKFRS 9	156,728	–	–	–	–	156,728
1 January 2018 (restated)	**156,728**	**440,223**	**280,271**	**9,906**	**843**	**887,971**
Charged/(credited) to profit or loss during the year (note 10)	**74,828**	**106,215**	**(50,715)**	**–**	**–**	**130,328**
Exchange realignment	**(12,514)**	**(23,904)**	**(21,348)**	**(455)**	**(40)**	**(58,261)**
Acquisition of subsidiaries (note 36(b))	**–**	**–**	**365,390**	**–**	**–**	**365,390**
At 31 December 2018	**219,042**	**522,534**	**573,598**	**9,451**	**803**	**1,325,428**

The Group had unutilised tax losses of approximately HK$1,127,671,000 as at 31 December 2018 (2017: HK$971,885,000) for offsetting against future taxable profits of the tax entity in which the losses arose. Deferred tax assets have not been recognised for these tax losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised (2017: Nil).

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

32. DEFERRED TAX *(continued)*

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on certain unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$250,639,000 at 31 December 2018 (2017: HK$106,797,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. SHARE CAPITAL

	2018 **HK$'000**	2017 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.1 each	**1,000,000**	1,000,000
Issued and fully paid:		
6,424,417,247 (2017: 6,424,417,247) ordinary shares of HK$0.1 each	**642,441**	642,441

There were no movements in the Company's share capital during the current and prior years.

As at 31 December 2018, the Group received subscription monies in the amount of HK$1,001,000,000 in relation to the subscription of 770,000,000 shares in the Company at HK$1.30 per share by Rong De which took place, subsequent to the end of the reporting period, on 2 January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

34. RESERVES

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

(i) Merger reserve

The merger reserve was set up upon the share swap for the Company to acquire its subsidiaries.

(ii) Contributed surplus

The contributed surplus was credited from the share premium cancellation in prior years. The application of the contributed surplus is governed by the Companies Act of Bermuda.

(iii) Statutory reserve

Transfers from retained profits to the statutory surplus reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Group's subsidiaries established in the PRC, and were approved by the respective boards of directors.

(iv) Capital reserve

Gain or loss arising on the acquisition of non-controlling interests and disposal of partial interests of the Group's subsidiaries without loss of control was recognised as capital reserve.

35. PERPETUAL CAPITAL SECURITIES

On 29 October 2018, the Company issued perpetual capital securities with a principal amount of HK$800,000,000.

The securities confer the holders a right to receive distributions at the applicable distribution rate of 6% per annum from and including 29 October 2018, payable semi-annually on 20 June and 20 December of each year. The Company may, at its sole discretion, elect to defer a distribution pursuant to the terms of the securities. Unless and until the Company satisfies in full all outstanding arrears of distribution and any additional distribution amount, the Company shall not declare or pay any dividends, distributions or make payment on, and will procure that no dividend or other payment is made on or redeem, reduce, cancel, buy-back or acquire for any consideration any share capital thereof. The securities may be redeemed at the option of the Company, in whole but not in part.

In the opinion of the Directors, the Company is able to control the delivery of cash or other financial assets to the holders of the perpetual capital securities due to redemption other than an unforeseen liquidation of the Company. Accordingly, the perpetual capital securities are classified as equity instruments of the Company.

36. ACQUISITION OF SUBSIDIARIES

(a) Business combination in the prior year

On 3 January, 2017, the Group entered into an equity transfer agreement with two independent third parties, pursuant to which the Group agreed to acquire 100% equity interests from the third parties in Guangzhou Zhenchao Property Development Company Limited (廣州振超房地產開發有限公司) ("GZ Zhenchao") located in Guangzhou, the PRC. GZ Zhenchao is principally engaged in property development in the PRC. The gain on bargain purchase of this acquisition amounted to HK$114,874,000.

The fair values of the identifiable assets and liabilities of GZ Zhenchao as at the date of acquisition were as follows:

	2017 HK$'000
Properties under development	340,787
Trade and other receivables	1,763
Cash and cash equivalents	1
Trade and other payables	(41,903)
Deferred tax liabilities	(119,302)
Net assets acquired	181,346
Gain on bargain purchase of a subsidiary	(114,874)
Total consideration	66,472
Consideration satisfied by cash	66,472

An analysis of the cash flows in respect of the acquisitions of GZ Zhenchao is as follows:

Cash consideration	66,472
Cash and cash equivalents acquired	(1)
Net outflow of cash and cash equivalents included in cash flows from investing activities	66,471

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

36. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) Business combinations in the current year

On 24 June 2018, the Group entered into an equity transfer agreement with Guangdong Zhuguang Group Company Limited, a related party, pursuant to which the Group has agreed to acquire 100% equity interests in GD Zhuguang Real Estate. GD Zhuguang Real Estate held 100% of the equity interests of Guangzhou Shunji Industry Company Limited (廣州舜吉實業有限公司) ("GZ Shunji") which is principally engaged in property development in the PRC. The acquisition was completed in July 2018.

The fair values of the identifiable assets and liabilities of GD Zhuguang Real Estate and GZ Shunji as at the date of acquisition were as follows:

	Notes	2018 HK$'000
Property and equipment	13	154
Investment properties	14	1,296,170
Intangible assets	15	273
Completed properties held for sale		950,066
Properties under development		1,009,371
Trade and other receivables		160,781
Amount due from related parties		2,539,720
Prepayments, deposits and other assets		76,139
Cash and cash equivalents		62,078
Trade and other payables		(1,187,973)
Contract liabilities		(321,324)
Interest-bearing bank and other borrowings		(3,456,462)
Current income tax payables		(129,343)
Deferred tax liabilities	32	(365,390)
Net assets acquired		634,260
Goodwill	16	196,010
Total consideration		830,270
Consideration satisfied by cash paid in prior year		830,270
An analysis of the cash flows in respect of the acquisitions of GD Zhuguang Real Estate and GZ Shunji were as follows:		
Cash consideration paid in 2018		–
Cash and cash equivalents acquired		62,078
Net inflow of cash and cash equivalents included in cash flows from investing activities		62,078

36. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) Business combinations in the current year *(continued)*

Since the acquisition, GD Zhuguang Real Estate and GZ Shunji contributed HK$98,574,000 to the Group's revenue and HK$75,382,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, there would have been no significant impact to the revenue and the profit of the Group for the year.

37. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank and other borrowings HK$'000	Derivative financial instruments HK$'000	Finance lease payable HK$'000	Amounts due to related parties HK$'000
At 1 January 2017	7,784,386	121,411	1,369	49,463
Changes from financing cash flows	2,870,827	(61,733)	(745)	48,348
Foreign exchange movement	442,875	899	—	7,969
Net change in fair value	—	21,367	—	—
Other non-cash movements	64,215	—	34	—
At 31 December 2017 and 1 January 2018	11,162,303	81,944	658	105,780
Changes from financing cash flows	4,767,190	(61,743)	(658)	300,444
Acquisition of a subsidiary	3,456,462	—	—	—
Foreign exchange movement	(240,800)	21	—	(15,538)
Net change in fair value	—	(2,258)	—	—
At 31 December 2018	**19,145,155**	**17,964**	**—**	**390,686**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

38. FINANCIAL GUARANTEES

The Group had the following financial guarantees as at the end of the reporting period:

	2018	2017
	HK$'000	HK$'000
Guarantees in respect of the mortgage facilities provided to certain purchasers of the Group's properties	**3,313,578**	2,682,760

As at 31 December 2018, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any auction banks, net of any auction proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees at initial recognition and the expected credit losses allowance are not significant as the Directors consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties.

39. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other borrowings are included in note 30 to the financial statements.

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to twenty years. The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**176,780**	81,203
In the second to fifth years, inclusive	**451,135**	197,357
After five years	**158,405**	20,584
	786,320	299,144

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**7,255**	7,423
In the second to fifth years, inclusive	**63**	7,496
	7,318	14,919

41. CAPITAL AND OTHER COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital and other commitments as at the end of the reporting period:

	2018 **HK$'000**	2017 HK$'000
Contracted, but not provided for:		
Properties under development	**1,323,811**	1,163,168
Acquisition of land use rights	**4,014,306**	4,450,200
Acquisition of property and equipment	**–**	1,172
	5,338,117	5,614,540

42. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	**Relationship**
Rong De	Ultimate holding company of the Company
Mr. Chu Hing Tsung (alias Mr. Zhu Qing Yi)	Major shareholder of Rong De, the chairman of the Company's board of directors (the "Board"), the Company's executive director, and a key management personnel of the Company
Mr. Liao Tengjia	Major shareholder of Rong De, deputy chairman of the Board, the Company's executive director, and a key management personnel of the Company
Mr. Huang Jiajue	Deputy chairman of the Board, the Company's executive director, and a key management personnel of the Company
Guangdong Zhuguang Group Company Limited ("GD Zhuguang Group")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Zhuguang Investment Company Limited ("GZ Zhuguang Investment")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Conghua Zhuguang Investment Company Limited ("GZ Conghua Zhuguang Investment")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Zhuguang Property Development Company Limited ("GZ Zhuguang Property")	Mr. Liao Tengjia has significant influence in this company
Shenzhen Zhuguang Property Company Limited ("SZ Zhuguang Property")	Mr. Liao Tengjia has significant influence in this company
Beijing Zhuguang Property Development Company Limited ("BJ Zhuguang Property")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Yifa Industrial Development Co., Ltd ("Yifa Industrial")	Mr. Liao Tengjia has significant influence in this company
Qingyuan Qingxin District Huilihao Real Estate Company Limited ("Qingyuan Huilihao")	Mr. Liao Tengjia has significant influence in this company

42. RELATED PARTY TRANSACTIONS *(continued)*

(a) Name and relationship with related parties *(continued)*

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	2018 HK$'000	2017 HK$'000
Sales of properties to the key management	(i)	**26,120**	12,406
Project management service income received from GZ Zhuguang Investment	(i)	**–**	364,433
Project management service income received from Qingyuan Huilihao	(i)	**12,115**	–
Interest income from GD Zhuguang Group	(ii)	**157,268**	–

Notes:

(i) The above transactions were conducted in accordance with the terms of the underlying agreements.

(ii) The interest income was derived from the deposit for acquisition of equity interests in a property development project at mutually agreed rate.

(iii) Certain related parties have provided pledges and guarantees for the Group's bank and other borrowings of HK$11,910,267,000 at 31 December 2018 (2017: HK$4,811,963,000).

(iv) Certain related parties have provided pledges and guarantees for the Group's senior notes of HK$3,551,193,000 (2017: HK$3,477,499,000) and warrants of HK$17,964,000 (2017: HK$81,944,000) at 31 December 2018.

(v) During the years ended 31 December 2018 and 2017, the Group's principal place of business in the PRC was provided by GD Zhuguang Group for which no charge was made.

(vi) In the opinion of the Directors, the related party transactions were conducted in the ordinary course of business.

(b) Compensation of key management personnel of the Group

In the opinion of the Directors, the directors and the chief executive officer of the Company represented the key management personnel of the Group and details of the compensation of the key management personnel are set out in note 8 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

42. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties:

As at 31 December 2018 and 2017, the Group had the following material balances with related parties:

	Notes	2018 HK$'000	2017 HK$'000
Amounts due from related parties included in trade receivables:			
— Key management		–	2,306
— GZ Zhuguang Investment	21(a)	–	366,569
— Qingyuan Huilihao	42(c)(v)	9,182	—
		9,182	368,875
Amounts due from related parties included in other receivables			
— GZ Zhuguang Investment	21(a)	–	1,196,300
— BJ Zhuguang Property	21(b)	–	1,196,300
— GD Zhuguang Group	21(c)	–	1,204,589
— GD Zhuguang Group	42(c)(vi)	160,781	—
		160,781	3,597,189
Amounts due from related parties included in prepayments and deposits			
— GD Zhuguang Group	22	1,154,985	4,426,310
— GZ Zhuguang Property	22	2,841,812	—
— GZ Conghua Zhuguang Investment	22	728,144	—
— Key management	42(c)(i)	–	168,211
		4,724,941	4,594,521
Amounts due from related parties included in financial assets at fair value through profit or loss			
— GZ Zhuguang Investment	23(a)	1,314,856	—
— BJ Zhuguang Property	23(a)	2,035,753	—
— Yifa Industrial	23(a)	1,899,425	—
		5,250,034	—

42. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties: *(continued)*

	Notes	**2018 HK$'000**	2017 HK$'000
Amounts due to related parties included in other payables			
— GD Zhuguang Group	42(c)(iii)	**390,347**	3,185
— GZ Zhuguang Investment	42(c)(iii)	**11**	—
— SZ Zhuguang Property	42(c)(iii)	**66**	—
— GZ Conghua Zhuguang Investment	42(c)(iii)	**262**	102,595
		390,686	105,780
Amount due to the ultimate holding company (Rong De)	42(c)(iv)	**24,030**	880
Amounts due to key management included in advances from customers/contract liabilities	42(c)(ii)	**—**	27,727

Notes:

(i) Amounts due from key management represented the prepayments for decoration service fee.

(ii) Amounts due to key management included in advances from customers/contract liabilities are related to sales of properties, which are unsecured, interest-free and to be settled according to contract terms.

(iii) Amounts due to related parties included in other payables are unsecured, interest-free and repayable on demand.

(iv) Amount due to the ultimate holding company is unsecured, interest-free and repayable on demand.

(v) Amount due from Qingyuan Huilihao included in trade receivables was derived from the provision of project management services, which would be settled in accordance with mutually agreed terms.

(vi) Amount due from GD Zhuguang Group included in other receivables was interest receivable, which would be settled in accordance with mutually agreed terms.

42. RELATED PARTY TRANSACTIONS *(continued)*

(c) Amount due from key management included in prepayments

Amount due from a director, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	At 31 December 2018 HK$'000	Maximum amount outstanding during the year HK$'000	At 31 December 2017 and 1 January 2018 HK$'000	Maximum amount outstanding during the prior year HK$'000
Mr. Chu Hing Tsung	—	168,211	168,211	168,211

43. FINANCIAL INSTRUMENTS BY CATEGORY

Other than unlisted PRC investment funds and financial assets at fair value through profit or loss and derivative financial instruments as disclosed in note 23 and note 29 to the financial statements, respectively, all financial assets and financial liabilities of the Group as at 31 December 2018 were financial assets at amortised cost and financial liabilities at amortised cost, respectively.

Other than unlisted PRC investment funds and derivative financial instruments as disclosed in note 23 and note 29 to the financial statements, respectively, all financial assets and financial liabilities of the Group as at 31 December 2017 were loan and receivables and financial liabilities at amortised cost, respectively.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments as at 31 December 2018 and 2017 approximated to their fair values.

Management has assessed that the fair values of trade and other receivables, deposits, restricted cash, cash and cash equivalents, term deposits, trade and other payables and current portion of bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The following methods and assumptions were used to estimate the fair values:

The carrying amounts of the non-current portion of bank and other borrowings approximate to their fair values. The fair values of the non-current portion of bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for bank and other borrowings as at 31 December 2018 and 2017 was assessed to be insignificant.

The Group has estimated the fair value of unlisted PRC investment funds by using a discounted cash flow valuation model based on the market interest rate of instruments with similar terms and risks.

Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of derivative financial instruments are the same as their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets				
Financial assets at fair value through profit or loss	–	–	5,320,075	5,320,075
Financial liabilities				
Derivative financial instruments	–	–	17,964	17,964

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets				
Financial assets at fair value through profit or loss	—	—	26,175	26,175
Financial liabilities				
Derivative financial instruments	—	—	81,944	81,944

The movements in fair value measurements of financial assets within Level 3 is as follows:

	2018 HK$'000	2017 HK$'000
Financial assets at fair value through profit or loss:		
At 1 January	**26,175**	35,651
Effect of adoption of HKFRS 9	**3,386,082**	—
At 1 January (restated)	**3,412,257**	35,651
Change in fair value during the year	**459,600**	—
Addition/(disposal) during the year	**1,595,266**	(11,975)
Exchange realignment	**(147,048)**	2,499
At 31 December	**5,320,075**	26,175

The movements in fair value measurements of financial liabilities within Level 3 is set out in note 37 to the financial statements.

The details of the valuation technique and the inputs used in the fair value measurement of financial assets at fair value through profit or loss and derivative financial instruments have been disclosed in note 23 and note 29 to the financial statements, respectively.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank and other borrowings, amounts due from/to related parties, and cash and term deposits with initial terms of over three months. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are market risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Market risk

The Group's assets are predominantly in the form of investment properties, properties under development and completed properties held for sale in the PRC. In the event of a severe downturn in the property market in the PRC, these assets may not be readily realised.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Other than term deposits held at banks, the Group does not have significant interest-bearing assets. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank and other borrowings with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) on profit before tax** HK$'000
2018		
RMB	**0.5%**	**(8,392)**
RMB	**(0.5%)**	**8,392**
HK$	**0.5%**	**(1,683)**
HK$	**(0.5%)**	**1,683**
2017		
RMB	0.5%	–
RMB	(0.5%)	–
US$	0.5%	(782)
US$	(0.5%)	782

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Foreign currency risk

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange Bureau by complying with certain procedural requirements. However, approval from appropriate PRC governmental authorities is required where RMB is to be converted into a foreign currency and remitted out of China to pay capital account items, such as the repayment of bank and other borrowings denominated in foreign currencies.

The Group's PRC subsidiaries may also retain foreign currencies in their current accounts to satisfy foreign currency liabilities or to pay dividends. Since foreign currency transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange Bureau, this could affect the Group's subsidiaries' ability to obtain required foreign currency through debt or equity financing, including by means of borrowings or capital contributions from the shareholders.

All the revenue-generating operations of the Group are transacted in RMB. The majority of the Group's assets and liabilities are denominated in RMB except for the Company and certain investment holding companies within the Group operating in Hong Kong and the BVI, in which bank and other borrowings were denominated either in HK$ or US$.

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

	Increase/ (decrease) in exchange rate	Increase/ (decrease) on profit before tax HK$'000
2018		
If HK$ weakens against RMB	**5%**	**374,101**
If HK$ strengthens against RMB	**(5%)**	**(374,101)**
If HK$ weakens against US$	**5%**	**(190,944)**
If HK$ strengthens against US$	**(5%)**	**190,944**
2017		
If HK$ weakens against RMB	5%	285,018
If HK$ strengthens against RMB	(5%)	(285,018)
If HK$ weakens against US$	5%	(170,458)
If HK$ strengthens against US$	(5%)	170,458

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Credit risk

It is the Group's policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, the Group does not have any significant credit risk as the credit given to any individual or corporate entity is not significant. The Group performs appropriate and sufficient credit verification procedures for every credit sale transaction to minimise credit risk. The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 38.

The Group was exposed to concentration of credit risk through its term deposits with initial terms of over three months, other receivables from related parties and deposits for acquisition of equity interests in property development projects.

The credit risk of the Group's other financial assets, which mainly comprise term deposits with initial terms of over three months, other receivables, deposits for acquisition of equity interests in property development projects and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	**Lifetime ECLs**			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets included in prepayments, deposits and other assets	7,321,306	—	—	—	7,321,306
Trade and other receivables*	1,178,558	337,631	—	—	1,516,189
Term deposits with initial terms of over three months	5,625,869	—	—	—	5,625,869
Restricted cash	822,606	—	—	—	822,606
Cash and cash equivalents	544,610	—	—	—	544,610
Financial guarantees issued	3,313,578	—	—	—	3,313,578
	18,806,527	337,631	—	—	19,144,158

* The credit quality of the financial assets included in trade and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Credit risk *(continued)*

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which mainly comprise cash and term deposits with initial terms of over three months, trade and other receivables, deposits for acquisition of equity interests in property development projects and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing, including proceeds from pre-sale of properties, committed credit facilities, short-term and long-term borrowings. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through available sources of financing. The Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in economic environment. These include control on investment in land bank, adjusting project development timetable to adapt to the changing local real estate market environment, implementing cost control measures, promotion of sales of completed properties, accelerating sales with more flexible pricing. The Group will pursue such options based on its assessment of relevant future costs and benefits.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Within one year or on demand HK$'000	In the second year HK$'000	In the third to fifth years, inclusive HK$'000	Over five years HK$'000	Total HK$'000
2018					
Bank and other borrowings	10,959,353	4,766,804	5,273,764	–	20,999,921
Trade and other payables	3,682,758	–	–	–	3,682,758
Amount due to the ultimate holding company	24,030	–	–	–	24,030
Derivative financial instruments	17,964	–	–	–	17,964
	14,684,105	4,766,804	5,273,764	–	24,724,673
Financial guarantees issued:					
Maximum amount guaranteed	3,313,578	–	–	–	3,313,578

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

Liquidity risk *(continued)*

	Within one year or on demand HK$'000	In the second year HK$'000	In the third to fifth years, inclusive HK$'000	Over five years HK$'000	Total HK$'000
2017					
Bank and other borrowings	2,775,029	6,204,682	4,852,001	–	13,831,712
Trade and other payables	2,231,536	–	–	–	2,231,536
Finance lease payables	670	–	–	–	670
Amount due to the ultimate holding company	880	–	–	–	880
Derivative financial instruments	81,944	–	–	–	81,944
	5,090,059	6,204,682	4,852,001	–	16,146,742
Financial guarantees issued:					
Maximum amount guaranteed	2,682,760	–	–	–	2,682,760

Capital management

The primary objectives of the Group's capital management are 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 and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. Net debt includes total bank and other borrowings less cash and cash equivalents, restricted cash and term deposits with initial terms of over three months. Total capital comprises total equity plus net debt. The Group aims to maintain a healthy and stable gearing ratio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Capital management *(continued)*

The gearing ratios as at the end of the reporting periods were as follows:

	2018 **HK$'000**	2017 HK$'000
Bank and other borrowings	**19,145,155**	11,162,303
Less: Cash and cash equivalents	**(544,610)**	(778,542)
Term deposits with initial terms of over three months	**(5,625,869)**	(3,439,190)
Restricted cash	**(822,606)**	(357,585)
Net debt	**12,152,070**	6,586,986
Total equity	**6,848,307**	5,182,573
Total capital	**19,000,377**	11,769,559
Gearing ratio	**64%**	56%

46. EVENT AFTER THE REPORTING PERIOD

On 2 January 2019, the Company issued 770,000,000 ordinary shares at HK$1.30 per share in aggregate of HK$1,001,000,000 to the ultimate holding company.

47. 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		
Property and equipment	**10**	69
Investments in subsidiaries	**580,881**	579,805
Total non-current assets	**580,891**	579,874
CURRENT ASSETS		
Amounts due from subsidiaries	**13,723,707**	8,577,947
Other receivables	**111,708**	75,521
Cash and cash equivalents	**6,837**	319,920
Total current assets	**13,842,252**	8,973,388
CURRENT LIABILITIES		
Amounts due to subsidiaries	**4,831,000**	1,738,136
Other payables and accruals	**31,526**	97,396
Interest-bearing bank and other borrowings	**4,338,581**	156,337
Current income tax payables	**1,204**	—
Derivative financial instruments	**17,964**	81,944
Total current liabilities	**9,220,275**	2,073,813
NET CURRENT ASSETS	**4,621,977**	6,899,575
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,202,868**	7,479,449
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**—**	3,443,117
Net assets	**5,202,868**	4,036,332
EQUITY		
Share capital	**642,441**	642,441
Perpetual capital securities	**800,000**	—
Reserves (note)	**2,759,427**	3,393,891
Subscription monies received	**1,001,000**	—
Total equity	**5,202,868**	4,036,332

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	4,640,287	717,209	(1,583,575)	3,773,921
Loss and total comprehensive loss for the year	—	—	(380,030)	(380,030)
At 31 December 2017 and 1 January 2018	4,640,287	717,209	(1,963,605)	3,393,891
Loss and total comprehensive loss for the year	—	—	(634,464)	(634,464)
At 31 December 2018	4,640,287	717,209	(2,598,069)	2,759,427

As at 31 December 2018, the contributed surplus of the Company included (i) approximately HK$477,805,000 (2017: HK$477,805,000) that arose when the Company issued shares in exchange for the shares of companies being acquired, and represented the difference between the nominal value of the Company's shares issued and the value of the shares acquired; and (ii) approximately HK$239,404,000 (2017: HK$239,404,000) which was credited from the share premium cancellation in the prior years. The application of the contributed surplus is governed by the Companies Act of Bermuda.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years is as follows:

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**2,704,796**	2,766,510	1,908,153	3,293,318	2,919,522
Profit before tax	**523,151**	383,151	246,764	1,282,565	994,841
Income tax	**(445,299)**	(237,713)	(426,196)	(774,091)	(798,888)
Profit/(loss) for the year	**77,852**	145,438	(179,432)	508,474	195,953
Attributable to:					
Equity holders of the parent	**4,717**	174,401	(175,645)	591,409	180,208
Non-controlling interests	**73,135**	(28,963)	(3,787)	(82,935)	15,745
	77,852	145,438	(179,432)	508,474	195,953

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**35,808,435**	24,152,944	18,746,947	17,428,582	20,235,831
Total liabilities	**(28,960,128)**	(18,970,371)	(13,940,856)	(13,262,372)	(16,390,607)
Net assets	**6,848,307**	5,182,573	4,806,091	4,166,210	3,845,224
Equity attributable to:					
Equity holders of the parent	**6,722,504**	4,858,131	4,472,288	3,810,715	3,386,998
Non-controlling interests	**125,803**	324,442	333,803	355,495	458,226
Total equity	**6,848,307**	5,182,573	4,806,091	4,166,210	3,845,224

PARTICULARS OF PROPERTIES

	Investment properties	Attributable beneficial interest to the Group	Total Saleable GFA m^2	Existing use	Lease term
1.	Levels 31-33, 35-39, 40-43 and 45 Royal Mediterranean Hotel No. 518 Tianhe Road Tianhe District Guangzhou Guangdong Province The PRC	100%	18,184	H	Medium lease
2.	Various floors Zhukong International Lot A2-1 Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	80%	43,918	C/O	Medium lease
3.	Block 7 Yujing Scenic Garden Provincial Highway G105 line Jiulibu District Jiangpu Town Conghua Guangzhou Guangdong Province The PRC	100%	3,283	C	Medium lease
4.	Various Units Central Park Lot H3-3 Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	100%	2,746	C/O	Medium lease
5.	Various floors Hua Cheng Yujing Garden No. 770 Hua Cheng Da Dao Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	100%	30,604	C/O	Medium lease
6.	G235 Yangguang Section Fengshun New Area Fengshun County Meizhou City Guangdong Province The PRC	100%	8,281	C/H	Medium lease

Detail of property development projects		Attributable beneficial interest to the Group	Site area m²	Total GFA m²	Total Saleable GFA m²	Completed and sold properties m²	Completed properties held for sale m²	Under development m²	Completed properties held as investment properties m²	Existing use	Estimated/ actual date of completion
7.	Zhukong International Lot A2-1, Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	80%	10,449	133,297	109,738	43,949	21,871	–	43,918	C/CP/O	2015
8.	Pearl Yunling Lake Provincial Highway S355 line Jiekou Street Conghua Guangzhou Guangdong Province The PRC	100%	200,083	127,509	98,511	23,168	48,299	27,044	–	R/H/V	2017-2018
9.	Yujing Scenic Garden Provincial Highway G105 line Jiulibu District Jiangpu Town Conghua Guangzhou Guangdong Province The PRC	100%	294,684	886,270	758,021	537,329	45,387	172,022	3,283	R/C/CP/S	2014-2020
10.	Tianhu Yujing Shui Di Village Jiulibu District Wenquan Town Conghua Guangzhou Guangdong Province The PRC	100%	55,031	241,556	186,895	130,725	56,170	–	–	R/C/CP	2016
11.	Central Park Lot H3-3 Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	100%	3,430	36,489	28,909	23,631	2,532	–	2,746	S/C/CP	2015
12.	Pearl Yijing No.168 Xin Kai Street West Section Xianghe County Langfang City Hebei Province The PRC	100%	63,044	192,441	165,058	95,657	9,236	60,165	–	R/C/CP	2017-2018
13.	Xincheng Yujing Zhong Su Shang Wei Sunshine Village Tang Nan Town Fengshun County Meizhou City Guangdong Province The PRC	100%	280,836	416,251	319,739	42,485	15,946	253,027	8,281	R/V	2018-2020
14.	Nansha Scenic Jinzhou Main Street Nansha District Guangzhou The PRC	100%	28,319	103,266	92,544	92,507	37	–	–	R/C/CP	2012-2013

PARTICULARS OF PROPERTIES

Detail of property development projects		Attributable beneficial interest to the Group	Site area m²	Total GFA m²	Total Saleable GFA m²	Completed and sold properties m²	Completed properties held for sale m²	Under development m²	Completed properties held as investment properties m²	Existing use	Estimated/ actual date of completion
15.	Project Tianying Junyuan Jiang Pu Street Conghua Guangzhou The PRC	100%	22,742	73,942	59,748	–	–	59,748	–	R/C	2019
16.	Hua Cheng Yujing Garden No. 770 Hua Cheng Da Dao Zhujiang New Town Tianhe District Guangzhou Guangdong Province The PRC	100%	60,237	433,015	109,113	24,942	17,100	36,467	30,604	R/C/CP/O	2020
17.	Meizhou Chaotang Project Chaotang Village Chengdong Town Meixian District Meizhou City The PRC	100%	46,793	97,617	97,617	–	–	97,617	–	H/V	2021
18.	Yujing Yayuan Guoji Fuyong Nanqu Zhongshan City The PRC	50%	15,745	50,507	37,942	–	–	37,942	–	R/C/CP	2020

R-Residential C-Commercial CP-Car park H-Hotel O-Office V-Villa S-Service Apartment